

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

RE: AQUARION WATER COMPANY OF NEW HAMPSHIRE

DOCKET NO. DW 08-098

DIRECT PREFILED TESTIMONY OF LINDA M. DISCEPOLO

In Support of Temporary Rates

August 27, 2008

1 Q. Please state your name and business address.

2 A. My name is Linda M. Discepolo. My business address is 600 Lindley Street,
3 Bridgeport, Connecticut.

4

5 Q. By whom are you employed?

6 A. I am employed by Aquarion Water Company of Connecticut ("AWCCT"), an
7 affiliate of Aquarion Water Company of New Hampshire (the "Company"), as
8 Director of Rates and Regulation.

9

10 Q. Please describe your educational background.

11 A. I am a graduate of Quinnipiac University where I received a Bachelors Degree in
12 Accounting and of the University of New Haven (Connecticut) where I received a
13 Master's Degree in Business Administration concentrating in Finance.

14

15 Q. What has been your business experience?

16 A. I was hired by AWCCT, formerly named Bridgeport Hydraulic Company, in
17 August 1979. During my employment I have been responsible for many
18 functions, including budgeting, finance, cash management, Securities and
19 Exchange Commission compliance and rate case preparation. In July 2000, I was
20 promoted to Director of Rates and Regulation responsible for financial regulatory
21 matters for each of Aquarion Water Company's three regulated water utility
22 subsidiaries, including AWCCT and the Company.

23

24 Q. What is the purpose of your testimony?

25 A. This testimony has been prepared to support the Company's request for a
26 temporary rate increase of 12.83% in this docket. The following testimony will
27 demonstrate that the Company's overall return on its common equity is
28 dramatically less than the last published rate as authorized by this Commission in
29 Order No. 23,412 (Docket No. DW 99-057). I have used this rate of return as a

1 reference point because there was no specific return on equity found in the
2 Company's last general rate case.

3

4 Q. What are the Company's current returns authorized by this Commission?

5 A. The Company's most recent full rate case, which was resolved by Order No.
6 24,648 issued in 2006, did not specifically state an agreed upon rate of return on
7 investment or return on equity. However, the Company's prior rate decision,
8 which was resolved by Order No. 23,412 issued in 2000, authorized an overall
9 rate of 8.81% based on a return on equity of 9.50%.

10

11 Q. How do the Company's authorized returns compare to the requested returns in this
12 docket?

13 A. In this docket, the Company is requesting a return on equity of 10.23% and an
14 overall rate of return on investment of 8.16%, reflecting the Company's decreased
15 cost of debt.

16

17 Q. What is the Company's current actual return?

18 A. As shown on Schedule 3 of the Company's rate case filing, the Company earned
19 an overall rate of return on its investment of 6.07% for the twelve months ended
20 March 31, 2008. The Company's return on equity for the identical period was
21 5.24%. The primary reason for the shortfall is the \$5.6 million in capital
22 improvements made to the system since the last case. The increased rate base,
23 combined with the higher depreciation expense associated with those capital
24 investments and the increased operating costs over the last three years have
25 resulted in the Company's inability to achieve its allowed return at current rate
26 levels.

27

28 Q. Please explain Temporary Rates Schedule No.A.

1 A. Schedule A illustrates the Company's revenue deficiency compared to the
2 Company's last allowed return on equity for the twelve months ending March 31,
3 2008, the test year in this docket. The calculation is based on the following:

- 4 • 13 month rate base adjusted for test year ended utility plant and accumulated
5 depreciation.
- 6 • composite rate of return of 7.85% made up of last allowed ROE of 9.5%,
7 current pro forma weighted debt cost of 6.66% and current cost of preferred
8 stock of 6%.
- 9 • Adjusted net operating income of \$1,179,605.

10 The above items yield a revenue requirement of \$642,600, or 12.83% to cover the
11 associated income deficiency.

12

13 Q Please discuss the calculation of net operating income.

14 A. Net Operating Income was derived based on the following:

- 15 • Operating revenues are adjusted to eliminate the effect of unbilled revenues,
16 rate case expense surcharge, temporary rate recoupment surcharge and to
17 reflect the normalization to current levels of fire hydrants, fire connections and
18 antenna rentals. Late payment fees are increased corresponding to the overall
19 temporary relief sought.
- 20 • Operation and Maintenance Expenses remain at test year levels.
- 21 • Other taxes and other income and expense are left at test year levels.
- 22 • Depreciation is adjusted based on the plant in service at the end of the test
23 year.
- 24 • Income taxes are adjusted based on the above changes and current state and
25 federal tax rates.

26

27 Q. RSA 378:27 provides for the Commission to set temporary rates at a level that is
28 "sufficient to yield not less than a reasonable return on the cost of the property of
29 the utility used and useful in the public service less accrued depreciation, as
30 shown by the reports of the utility filed with the Commission..." Referring to the

1 Company's reports on file with the Commission, how does the return being
2 earned by the Company compare to its last allowed return?

3 A. Using the rate base and expense levels in the Company's most recently filed
4 annual report, the Company's overall rate of return would be 6.44% and its return
5 on equity would be 6.05%, as compared to its last allowed overall rate of return of
6 8.81% and return on equity of 9.50%.

7
8 Q. Please explain the Company's approach in deriving temporary rate relief?

9 A. The Company is requesting temporary rates at approximately 61% of the overall
10 permanent rate relief sought in this docket. The Company believes that it has
11 presented temporary rates in a manner that is easily auditable by the Commission.
12 A swift determination of temporary rates allows the Company personnel and
13 Commission staff to focus their energies on the examination and determination of
14 permanent rates. At the same time, this allows the Company to mitigate a larger
15 surcharge for its customers at the time at which permanent rates are set.

16
17 Q. Ms. Discepolo, please describe the methodology for allocating temporary rates
18 among customer classes.

19 A. Temporary rates are designed by applying the requested increase on an across the
20 board basis. Because the Company is not seeking an increase to many of the
21 miscellaneous charges, the effective increase to all affected areas is approximately
22 12.96%. This increase is applied to all rates and, as there is no proposed
23 modification to the current billing/rate structures, the uniform increase in pricing
24 will also yield a uniform increase to requested revenues at the customer class
25 level.

26
27 Q. Ms. Discepolo, does this conclude your testimony?

28 A. Yes it does.

29

30

31

AFFIDAVIT

STATE OF NEW HAMPSHIRE PUBLIC UTILITY COMMISSION

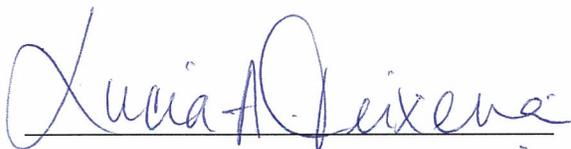
LINDA M. DISCEPOLO, being first duly sworn, deposes and states:

That she is the Linda M. Discepolo whose direct testimony accompanies this Affidavit, that said direct testimony is a true and accurate statement of her answers to the questions contained herein, and that she adopts those answers as her sworn testimony in this proceeding.



LINDA M. DISCEPOLO

SWORN TO and SUBSCRIBED before me this 27th day of August.



Notary Public

Expires
3/31/2013