

**AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.**  
**DW 16-123**

**Aquarion Water Company's Responses to  
Staff's Data Requests – Tech Session Set #1**

Date Request Received: May 10, 2016

Date of Response: May 13, 2016

Request No.: Staff Tech Session 1-3

Witness: Troy Dixon

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**REQUEST:** Explain the revenue adjustment on the Company's 2015 Annual Report to the PUC. Update Staff 2-2 to reflect this adjustment.

**RESPONSE:** During fiscal year 2015, the Company determined that it had been incorrectly recognizing revenue related to the fixed portion (service charge) of certain customer bills. Consistent with the usage portion of each bill, the Company was recognizing service charge revenue based upon the period of service each bill covered. Upon further examination, the Company determined that the service charge portion of the bill was an advance billing for the upcoming quarter. The Company determined that this practice had been in place prior to Aquarion's acquisition of the New Hampshire utility in 2002 and continued up to the point of discovery in 2015.

As this matter has persisted beyond the reporting periods, the income statement and cash flow impacts are minor. However, there is a balance sheet impact that needed to be addressed. In order to reflect the proper amounts on the balance sheet, the 2015 income statement and cash flows were affected by recording a \$399,000 reduction to revenues in 2015, with the corresponding tax impact based on an effective tax rate of 40.53%, reflecting federal and state statutory tax rates, (8.5% state, 35% federal, net of state tax benefit).

Aquarion added back the \$399,000, net of tax, to utility operating income (UOI). This change in the UOI results in an adjusted ROE of 11.59%. Below shows a reconciliation of the 2015 income statement as if this adjustment had not occurred.

	Ref	2015 YE	Change	Adj. 2015 YE
Rate Base	a	24,034,610		24,034,610
Utility Operating Income	b	1,981,980	237,285	2,219,265
Return on Rate Base	c=b/a	8.25%	0.99%	9.23%
Wt. Avg. Cost of Debt	d	3.63%		3.63%
Wt. Avg. Cost of Equity	e=c-d	4.62%		5.60%
Equity Capitalization %	f	48.34%		48.34%
Return on Equity	e/f	9.55%	2.04%	11.59%

Utility Operating Income adjustment is net of tax (\$399,000\*(1-40.53%)).

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The 2015 earned ROE is due to effective leadership in our New Hampshire operations with utilizing the WICA program, managing operating expenses, and enhancing our procurement process.

The Company is taking full advantage of the WICA Program. In 2015, the WICA investment accounted for more than 56% of the Company's \$1.4 million capital investment. The Company's investment in WICA and the ability to recover capital investment sooner is a positive attribute to prolonging a rate case filing in New Hampshire.

In addition to the Company's WICA program, Aquarion operating and maintenance expense in 2015 was favorable by 6.8% or decreased by \$216K, compared to the prior year. Notable operational efficiencies, offsetting other increases in expenses, are due to favorable main break expenses, a \$50K reduction from prior year (6 main breaks in 2015 compared to 16 in 2014), a \$41K reduction in customer service expense, a \$105K reduction in other consulting expense as a result of a change in outside auditors and a new procurement process, and a \$190K reduction in regulatory commission expenses.

Further, the Company's new procurement process has enable Aquarion to obtain favorable pricing for electric costs, chemical costs and fuel as well as for other consulting services.

The benefits of the WICA program, improved cost control and our procurement process has lead to Aquarion earning its authorized return and extending the timing of the Company's next rate case filing.