STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DOCKET NO. DW 08-098

DIRECT TESTIMONY

OF

LINDA M. DISCEPOLO

August 27, 2008

Q. Please state your name and business address.

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

I. BACKGROUND

Q. By whom are you employed?

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

Q. Please describe your educational background.

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

Q. What has been your business experience?

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

Q. Have you previously testified or submitted written testimony before regulatory agencies?

A. Yes, I have testified on behalf of Aquarion Water Company's regulated water utility subsidiaries' rate filings and/or financings in the States of Connecticut, New York, Massachusetts and New Hampshire.

Q. Are you generally familiar with the books and records of the Company?

A. Yes. I am.

II. PREPARATION OF SCHEDULES; EARNED RETURN AND REVENUE DEFICIENCY

Q. What system is followed in keeping the general books of accounts and related records of the Company?

A. The general books of accounts and related records of the Company are kept in conformity with the Uniform System of Accounts for water companies.

Q. Have you prepared, or caused to be prepared, financial schedules in support of the Company's application to increase rates?

A. Yes, I have. The Company has filed schedules that reflect its accounting and financial condition and that support the Company's petition for increased rates.

The schedules that I am supporting with direct testimony were prepared by me or under my supervision and direction. These schedules are **Schedule A** and **Schedule 1** through **Schedule 6**. A table summarizing all Schedules has been provided with the Company's filing. These schedules are all supported by one or more of three Company witnesses, Mr. Bingaman, Mr. Dixon, and myself. In addition, Mr. Jay Shutt, of Floyd Browne Group will sponsor testimony and schedules relating to a depreciation study that supports the depreciation rates contained within this application.

Q. What is the source of the information in these schedules?

A. The schedules have been prepared utilizing the general books and records of the Company and other supporting data for a test year of the 12 months ended March 31, 2008. Since the purpose of rate making is to set rates to be applied in the future, recorded test year data has been adjusted on a pro forma basis, where appropriate, to reflect known and measurable changes in operating conditions which were not fully reflected in the test year results and which will continue to impact operations in the future. These adjustments will be explained in the following schedules.

Q. Before you present your exhibits, will you please discuss the Company's present financial condition?

A. The Company's last rate proceeding by Order No. 24,648 (July 18, 2006), authorized Aquarion to file for a step increase in rates to account for capital expenditures made for distribution mains and related facilities in the Hampton Beach area. As discussed by Mr. Bingaman, the Company elected not to file for the step increase due to a change in control by its parent and the Company's indirect acquisition by Macquarie Utilities, Inc. ("MUI"). The total cost of that project, which amounted to $1,683,000, is now included in the Company's rate base as part of this application.

Beginning with the second quarter of 2005, in addition to the Hampton Beach project, the Company has expended $3,939,000 on capital improvements necessary to upgrade aging infrastructure and to ensure adequacy and reliability of service and supply to our customers. In addition, the Company has experienced cost increases in expenses such as wages, medical, purchased power charges, corporate insurance expense, technology upgrades and depreciation expense over the last three years. As a result of these increased capital and operating expenses, coupled with not implementing the step increase, the Company's present pro forma return on rate base has fallen to 5.00%, far below a reasonable return for a company of this nature. This rate application is critical to the Company and its financial security and integrity on a going-forward basis. Full rate relief will allow the Company to operate on a stand-alone basis, internally generate sufficient funds that are necessary to maintain its utility plant; pay a reasonable return to its shareholder, and keep its borrowing needs at reasonable levels.

Q. What are the results displayed on **Schedule A**?

A. **Schedule A** summarizes the computation of the total revenue deficiency and the proposed revenue increase after pro forma adjustments. It shows that the Company is experiencing an overall revenue shortfall of $1,056,070 on a pro forma basis, resulting in the need for a 21.08% increase to pro forma revenues based on present rates.

III. OPERATING INCOME AND EXPENSES

Q. Please summarize the contents of **Schedule 1**.

A. **Schedule 1**, page 1 of 3 sets forth the income statement for the Company for the 12 months ended March 31, 2006, 2007 and 2008. It also reflects pro forma adjustments to the test year (explained in detail later in my testimony) to arrive at a pro forma income statement at present rates as well as pro forma net income at proposed rates. Page 2 of 3 also depicts the income statement; however, the format is modified to capture the calculation for Utility Operating Income (versus Net Income on page 1). Page 3 of 3 displays the quarterly consumption levels for each quarter of the test year, and the customer count at December 31, 2007. Mr. Dixon will discuss in detail **Schedule 1A**. He will also discuss **Schedule 5A** through **Schedule 5I** as part of his testimony.

Q. Please discuss in detail the pro forma adjustments represented in **Schedule 1B** through **Schedule 1BB**.

A. **Schedule 1B – Summary of Pro Forma Adjustments to O&M Expense**. This schedule simply summarizes the operation and maintenance expense adjustments to the test year figures as well as the corresponding detailed schedule references and major account classifications. As can be seen, the Company is proposing to increase test year operating expenses by $218,839 on a pro forma basis. Even with this adjustment, the total pro forma operating expenses of $2,576,464 for the 12 month period ended March 31, 2008 are only $20,531, or 0.8% higher than the level expended for the 12 month period ended December 31, 2002, as reported in the Company's Annual Report to the Commission and representing the year of acquisition.

Schedule 1C –Salaries and Wages. This schedule details all wages and salaries charged to the Company. Total wages, which are comprised of two components, are calculated as follows:

1) The first component of the wage increase relates to the direct charges for the employees of Aquarion Water Company of New Hampshire. Pro forma officer wages are based on current annualized salary levels for the Senior Vice President of Operations, who is in charge of both the New Hampshire and Massachusetts subsidiaries of Aquarion Water Company. The amount shown of $68,160 represents 37.5% of total wages and is based on time allocated to the New Hampshire operation by the Senior Vice President. In addition, there are also three full time and two part time exempt and non exempt, non union employees. Pro forma wages of $136,995 and $71,188 are based on current annualized salary levels, which include an open position in the amount of $95,000 for an Operations Manager. That position is expected to be filled shortly and the new employee will

be in place prior to the implementation of temporary rates. Lastly, pro forma wages of $373,922 relate to annualized salary levels at December 1, 2007 for eight union employees. A 3% union contract salary increase at December 1, 2008 as well as a step increase for one union employee, which total $12,211 is also included in pro forma wages. Standby and shift differential pay based on the amounts included in the test year plus the 3% union contract increase for these charges is also included in pro forma wages. The resulting amount of gross pro forma wages of $691,937 was multiplied by the percent to expense ratio to arrive at pro forma wages charged to expense. Test year wages were subtracted from the pro forma wages to arrive at the pro forma adjustment.

2) The second component of wages represents service company personnel whose time was charged to the New Hampshire operations in the test year. This time represents services from Aquarion Water Company Connecticut's Accounting, Finance, Accounts Payable, Engineering, Human Resources, Administration and Water Quality departments. The only adjustment made to the amount of salaries charged to utility expense in the test year was a 3% pay increase that went into effect on April 1, 2008.

Schedule 1D – Employee Welfare. Employee welfare expense includes employee medical costs, 401K Plan expense, auto allowance, life insurance and long-term disability. Harvard Pilgrim medical costs are based on a premium based plan for 11 full time New Hampshire employees. The Company moved to a premium based medical plan on July 1, 2008 versus a self-insured plan in an effort to control medical expense and to reduce the risk of subsidizing large claims for serious illnesses in any particular year. Medical expense for the Senior Vice President, of which 37.5% of the cost is allocated to the New Hampshire operations, is provided through CIGNA. Pro forma expenses for medical expense are based on the current annualized costs of those plans, less the amount contributed by employees. 401K plan expense is based on the current annualized matching expense based on each employee's current contribution and an assumed 6% contribution level for the operation manager. Union employees receive a 50% Company match and non union employees receive a 75% Company match. Pro forma auto allowance is based on a $400 per month allowance for the Operations Manager. Pro forma life insurance and long term disability expense are based on multiples of base wages, as shown on **Schedule 1C**, times the current insurance rates. For pro forma purposes, all of the above costs have been reduced to reflect the amount charged to utility expense.

Schedule 1E - Employee Bonus Program. In an effort to retain and attract employees, in addition to incentivizing employee behavior toward customer service, service quality and product quality goals, the Company offers a bonus program for its non union employees. Amounts for the bonus are based on a percentage of the employees' annual salary for those employees achieving their goals and meeting performance targets. Pro forma amounts are based on typical payouts. For the Senior Vice President, there is a 37.5% allocation, and for the four non exempt, non union employees the amount has been reduced for the percentage charged to utility expense.

Schedule 1F – FAS 106 – Post Retirement Healthcare. FAS 106 expense is adjusted based on the current expense level derived by the Company's actuary, Deloitte & Touche.

Schedule 1G – Pension. Pension expense is adjusted based on the current expense level, also derived by the Company's actuary, Deloitte & Touche.

Schedule 1H – Amortization of Depreciation Study. The Company commissioned its first depreciation study since acquiring the New Hampshire operations in 2002. Generally water utilities will prepare depreciation studies from time to time in conjunction with water service rate applications (see testimony of Jay Shutt for greater detail). The last study was prepared in May 1999 based on December 31, 1998 asset values. Pro forma expense was computed by amortizing the cost of the depreciation study over a six year period. The six year amortization period was chosen to coincide with two rate cycle periods.

Schedule 1I – Chemicals Expense. The Company has adjusted its chemicals expense to reflect test year volumes of chemicals at most recent prices.

Schedule 1J – Purchased Power - Electric. The Company has two electric providers, Public Service of New Hampshire and Unitil Corporation. For Unitil, test year rates have not increased, therefore pro forma power costs are based on the equivalent of 12 monthly bills. For Public Service of New Hampshire, pro forma power costs are based on the most recent kilowatt hour rate times the test year's kilowatt hour usage. As **Schedule 1 J** depicts, the kilowatt hour charge changed three times in the test year versus the most current rate. The Schedule correctly shows the increase in power cost for each period. Although power costs did increase on a pro forma basis versus the test year, the pro forma adjustment is a credit as a result of the booking of an over accrual of power expense charged in the test year.

Schedule 1K – Elimination of Non Recurring Items. During the preparation of this rate case, the Company examined its books and found items which would not be expected to recur in the future; and conversely one charge, leak detection that was paid after the test year for services performed in the test year. This charge is expected to recur on an annual basis and is included for pro forma purposes. The detailed list of these items is found on **Schedule 1K.**

Schedule 1L – Building Lease Expense. The Company currently leases office space in Hampton at One Merrill Industrial Drive for its administrative and operational needs. Pro forma expense is based on the annualization of the current lease expense.

Schedule 1M – Corporate Insurance. Schedule 1M reflects the Company's allocated insurance expense as of December 1, 2007 policy year with one insurance contract renewing April 30, 2008. The pro forma expense is based on this amount. The Schedule clearly depicts the type of policy as well as the methodology behind the Company's allocation. The latest policy year yields a pro forma increase in expense as compared to the test year expense.

Schedule 1N – Audit Fees. Pro forma audit fees are based on the proposal given to the Company by its external auditors for the New Hampshire operation, Dworken, Hillman, Lamorte and Sterzala. The pro forma adjustment of $10,780 is not indicative of test year expense as the test year included the booking of an under accrual for audit expenses. Fees for last year's audit were $42,500, while the pro forma amount reflects a minor increase.

Schedule 1O - Customer Billing. The Company out sources its customer billing function. The credit adjustment of $4,400 was necessary to reflect the actual charges incurred by the Company during the test year for billing services such as bill printing, postage and remittances.

Schedule 1P – Purchased Power: Oil and Gas. This schedule reflects adjustments to gas, propane and fuel oil. The test year expense was adjusted to reflect the actual test year usage multiplied by the most current prices.

Schedule 1Q – C.I.A.C. Amortization. Pro forma amortization of C.I.A.C. utilizes the proposed depreciation rate for transmission and distribution mains, as set forth in the depreciation study prepared by Jay Shutt, in computing the annual amount. The new rate of 1.20% is lower than the current rate of 1.36% yielding a lower annual amortization amount.

Schedule 1R – Tank Painting Amortization. During the test year, the Company began amortization of tank painting costs for the Jennes Beach tank, as well as continuing the amortization of the painting costs for the Glade Path and Exeter Road tanks. The adjustment to test year expense equates to the amortization of the Jennes Beach tank.

Schedule 1S – Shared Facility Costs. As in prior years and as part of this rate application, the Company is allocating to the New Hampshire operation facility a share of the costs pertaining to Aquarion Water Company's three office and operations buildings in Connecticut. This is necessary and fair, as all three Connecticut buildings house employees whose time is charged directly to the New Hampshire operations. The first step in the computation of pro forma shared facility costs is to compute an average hourly wage rate for all employees located in each respective building. That computation is shown on **Schedule 1S, part A**; the second component, **Schedule 1S, part B**, establishes an hourly building overhead cost by dividing total operating expense for each building by the total hours worked by all employees located in each building. Total operating expense includes depreciation, property taxes, return on investment and operation and administrative expenses. The hourly building cost rate, part B, divided by the average hourly wage rate, part A, establishes a new overhead percent for each individual building. Please see the resulting overhead percent for each building in **Schedule 1S part C** of the computation. The resulting percentage is then multiplied by the direct labor dollars charged to the New Hampshire operations from each building in Connecticut. The resulting amount of $28,803 for all three buildings establishes pro forma expense, from which is subtracted the test year amount to arrive at the adjustment.

Schedule 1T – Management Allocation. Aquarion Company, the parent company of Aquarion Water Company which in turn is parent to Aquarion Water Company of New Hampshire, has corporate charges, a portion of which it allocates to its subsidiaries. The costs are allocated between the parent's regulated utilities and non-regulated entity, based on the Massachusetts formula methodology. This formula is a three-part allocator that uses a weighted cost average ratio comparing gross revenue, plant and payroll. Costs allocated to the regulated utilities are then spread to the individual utilities based on each utility's respective customer count. The utilities receive 98.64% of the overall cost. The Company's share is 4.18% (98.64% x 4.24%), see page 2 of **Schedule 1T**. Pro forma management fees total $60,898, which are $11,489 less than the test year amount and $31,674 lower than the amount contained in the last rate application.

Lower management fees being charged by the parent company, Macquarie Utilities Inc. ("MUI") versus the previous parent, Kelda, Inc., is the reason for lower management fees being charged to New Hampshire.

Schedule 1U – Shared Customer Service Costs. As agreed to in the Company's *Petition for Approval of Indirect Acquisition by Macquarie Utilities, Inc. Order Approving Acquisition and Settlement Agreement*, Order No. 24,691 (October 31, 2006), the Company has continued to maintain an office in New Hampshire for bill payments and customer inquiries subsequent to the acquisition. There are, however, many functions in regard to customer service that are performed by Connecticut personnel, both in the customer service and collections areas that benefit the New Hampshire operations. These services include the overall administration of customer service, the collection of cash payments for New Hampshire's water bills through a lock box which are reported directly to the shared customer service department in Connecticut, management of uncollectibles, late payments and delinquencies, and support for service representatives located in New Hampshire to assist with non-routine issues.

The customer service employees in Connecticut do not directly charge payroll time to any affiliate, and they are not included on **Schedule 1C**, Salaries and Wages, as service company wages. To reflect the cost of these services, for pro forma purposes, a portion of the Connecticut company's customer service cost is allocated to the New Hampshire operation. As **Schedule 1U** shows, the allocation of costs is based on customer count. The customer count used for the New Hampshire operation allocation is 4,385, which is one half (50%) of the actual count of 8,770 customers. This allocation reduction recognizes the fact that calls are directly answered in the New Hampshire office, but administrative and support services are still provided by the Connecticut operations. As a result of this computation, pro forma expense is $34,763.

Schedule 1V – Shared IT Costs. In accordance with the AWC Service Agreement, AWC CT provides PC and networking services, software and hardware maintenance, and data processing services to the Company. Those services include SAP software systems and licenses along with technical support. All costs incurred in rendering shared IT services to AWC's water subsidiaries are allocated among all utilities receiving such services based on the number of customers served at the immediately preceding calendar year end. In a decision issued on December 12, 2007, the Connecticut Department of Public Utility Control ruled that Connecticut customers could only be charged for their share of the return and related depreciation on the SAP investment, and therefore AWC CT would have to seek recovery of the portion of the return allocable to other jurisdictions from the affiliates operating in those jurisdictions. As SAP and its related software components are utilized by all of AWC's regulated entities, the Company included a pro forma adjustment to Shared IT expense for these costs. The pro forma expense amounts to $252,372, as shown on **Schedule 1V**.

Schedule 1W – Depreciation Expense. Pro forma depreciation expense was computed by multiplying utility plant in service values at March 31, 2008 by the new depreciation rate supported by the depreciation study contained in this application. In addition, an amount was added to the total depreciation expense in order to amortize the difference between book and calculated depreciation reserves over a ten-year period. This practice is consistent with the Company's prior depreciation study filed in Docket DW 99-057 and approved in Order No. 23,412 (February 28, 2000). Test year expense was subtracted from the resulting pro forma depreciation expense to arrive at the pro forma adjustment.

Schedule 1X – Payroll Taxes. As a result of the wage adjustments in **Schedule 1C**, payroll taxes must also be increased. FICA, federal and state unemployment insurance are adjusted to correspond to the new salary and wage levels. This includes payroll taxes relating to both full and part time employees.

Schedule 1Y – Property Taxes. Pro forma property tax expense is based on the latest property tax bills the Company received in July 2008. The most recent bills reflect a reduction in property taxes as compared to the amount used in the test year. However, the Company has been informed by the Utility Appraiser at the Department of Revenue Administration that there will be a change in the method used to value real property. This change, which is expected to be shown on the December 1, 2008 "Notice of Value and Tax Bill", would result in an assessed value for real property of approximately $14.5 million compared to our latest valuation of $11.8 million. Assuming the tax rate used to calculate the tax remains at $6.60 per $1,000, the Company would experience an increase in its property tax expense of approximately $18,000. Given the magnitude of this increase, the Company plans to update this expense during the proceeding.

Schedule 1Z - Interest Expense. Pro forma interest expense includes interest charges on both the long-term debt and inter-company borrowings as shown on **Schedule 4D** and **Schedule 4E** and discussed later in my testimony.

Schedule 1AA – State Income Taxes. State Income taxes are computed as follows: the Company first calculates pre tax income by reducing revenues by the amount of Operations and Maintenance expenses, depreciation, other taxes, interest expense and net other income. The pre-tax income is next affected by **Schedule M** (adjustments to income for timing differences) to arrive at state taxable income. The state business profits tax is applied to state taxable income to arrive at the pro forma expense.

Schedule 1BB – Federal Income Taxes. Federal Income Taxes are computed by starting with taxable income from the state tax calculation page, **Schedule AA**, Line 5. From that value, State Income Taxes are deducted to arrive at taxable income, and the federal statutory rate of 35% is applied. To that value the Company is adding, for rate making purposes, the annual amortization of a tax regulatory asset carried forward from the previous owner, American Water Works to arrive at the pro forma amount.

IV. BALANCE SHEET AND RATE BASE

Q. Please discuss the contents of **Schedule 2** and its supporting sub-schedules.

A. **Schedule 2** reflects the Company's balance sheet as of March 31, 2008 as well as the two prior 12 month periods. Additionally the schedule shows the 13 month average balance from the period ended March 31, 2008. A column is also present to reference the detailed supporting schedules of key balance sheet items.

Schedule 2A depicts, for all balance sheet values on **Schedule 2**, each month necessary to compute the 13 month average.

Schedule 2B provides a monthly balance sheet account level detail of the Utility Plant grouping from **Schedules 2** and **2A**.

Schedule 2C shows monthly balances of Property Held for Future Use.

Schedule 2D shows accumulated depreciation by account at March 31, 2008, and at the end of the three prior 12-month periods ending December 31. Additionally, there is a summary of individual retirements over $5,000.

Schedule 2E presents, by account, materials and supplies' balances monthly, as a 13-month average, and at the end of the test year and prior two 12 month periods ending March 31.

Schedule 2F presents, by account, deferred taxes balances monthly and as a 13-month average.

Schedule 2G presents, by account, deferred expense balances monthly and as a 13-month average.

Schedule 2H presents, by account, contributions in aid of construction (CIAC) balances monthly and as a 13-month average. Additionally, activity is shown since Aquarion's acquisition in 2002.

Q. Please discuss the contents of **Schedule 3** and it supporting sub-schedules.

A. **Schedule 3** depicts the Company's rate base as of March 31, 2008, as well as the two prior years ending March 31. Additionally the schedule shows the 13-month average balance for the period ended March 31, 2008, as well as the Company's computation of rate base on a present pro forma basis. Please note, for computation of pro forma rate base, the Company used values for plant in service and depreciation as of March 31, 2008 and not the 13-month average. These values correctly represent the exact amount the Company has expended for utility plant as of March 31, 2008, which is in service and currently serving the customer. A column is also present to reference the detailed supporting schedules of key items.

Schedule 3A provides a monthly account level of detail of the Utility Plant grouping from **Schedule 3**. **Schedule 3A** is identical to **Schedule 2B** less property held for future use which the Company did not feel is appropriate to include in rate base.

Schedule 3B shows on a monthly account level basis, accumulated depreciation and rate base additions for materials and supplies, prepayments, deferred expenses and a working capital allowance.

Schedule 3C shows on a monthly account level basis, rate base deductions for customer advances, contributions in aid of construction and deferred taxes.

Schedule 3D shows the detailed calculation for working capital for the test year, two prior 12 month periods and 13-month average. The rate used of 8.03% is calculated in a lag study included in the Standard Filing Requirements, item number 28.

Q. Are all of the rate base additions included in the Company's rate case filing used and useful in providing service to its customers?

A. Yes, except that the rate base additions related to the replacement of the Mill Road standpipe as shown in **Schedule 6**. This project will be in service during the last quarter of 2008 and the Company is requesting a step increase on this capital investment .

V. RATE OF RETURN

Q. What overall rate of return is the Company seeking in this application?

A. The Company is requesting an overall rate of return of 8.16%

Q. How did the Company derive this proposed overall rate of return?

A. As shown on **Schedule 4A**, the Company began with its March 31, 2008 actual capital structure reflecting the balances for three factors: (i) long-term debt, including inter-company debt (ii) preferred stock and (iii) common equity. Next, the Company established the overall weighted costs for each of three capital components with the results shown on **Schedule 4**. The weighted cost of long-term debt and preferred stock was calculated as detailed on **Schedule 4D, Schedule 4E** and **Schedule 4F,** respectively. The weighted cost of common equity was derived based on the Company's recommended 10.23% cost of common equity.

Q. Has the Company retained a cost of capital consultant?

A. No, it has not. The Company is attempting to limit its rate case expense by eliminating the need to hire a rate of return expert to determine a fair rate of return. Rate of Return consultants can cost in excess of $50,000 per rate filing. If a cost of equity can be developed that is both acceptable to the Company and within the range deemed reasonable by the Commission's Staff, it would serve no useful purpose for the Company to incur the cost of retaining an expert in this area, that ultimately our customers will bear. The Company does, however, reserve the right in this proceeding to hire an expert if an agreement cannot be reached with Staff. For now, in the interest of cost savings, the Company believes that the approach it has taken is the most expeditious and beneficial for it and its customers.

Q. How was the 10.23% return on equity arrived at?

A. The Company surveyed investor owned water utilities throughout the United States in an effort to obtain recently authorized rates of return on equity ("ROE") issued during the period 2007 and 2008. The survey results reflect the authorized ROE's of 31 companies located in 18 regulatory jurisdictions and also includes the Florida Commission's most recent Staff recommendation for the current leverage formula for deriving ROE to which the Company's equity ratio was inserted. Each reported company's last allowed ROE, including the derived Florida Commission formula, was averaged resulting in an overall allowed return on equity of 10.23%. I should stress that, while I believe this is a reasonable approach upon which to base a compromise relating to ROE (i.e., in order to avoid the expense of litigating the issue), it is obviously possible that an independent expert would recommend a different ROE, particularly after considering any specific regulatory or other risks facing a utility the size of the Company operating in New Hampshire.

VI. REVENUE PROOF

Q. What is the nature of **Schedule 5**?

A. **Schedule 5**, consisting of 9 schedules, sets forth the revenues by class at both present pro-forma and proposed pro-forma rates. Mr. Dixon's testimony details the allocation of the proposed pro-forma revenue requirement by rate class. **Schedule 5** is a summary, **Schedules 5A** through **Schedule 5F** represent each of the metered classes, **Schedule 5G** and **Schedule 5H** represent public and private fire service, and finally, **Schedule 5I** represents miscellaneous revenues.

VII. STEP INCREASE

Q. Please discuss **Schedule 6.**

A. **Schedule 6** reflects the revenue requirement associated with the Company's Mill Road standpipe replacement project that will be completed beyond the time frame represented by the Company's rate base as of March 31, 2008. Details of the project are contained in the testimony of Larry Bingaman.

Q. Why are these capital investments included as a step increase?

A. This investment necessitated a step increase because it will be completed beyond the end of the test year. In addition, the approximate $1,525,000 rate base investment represents 7.7% of rate base, a significant amount to a company the size of Aquarion Water Company of New Hampshire. A step increase will postpone the Company's need to apply for additional rate relief soon after the adjudication of this case. The project is also non-revenue producing.

VIII. SYSTEM DEVELOPMENT CHARGE

Q. Please discuss the System Development Charge (SDC) shown in **Exhibit LMD-1**.

A. Mr. Bingaman's testimony discusses the necessity for this charge, while **Exhibit LMD-1** provides the calculation of the charge. The SDC will seek to collect from new metered customers the cost related to the upsizing of mains required to meet additional demands. This charge analyzes the incremental cost of replacing 8 inch mains with 12 inch mains. The incremental per foot cost is applied to the average feet of mains per customer to arrive at a one-time charge of $779; applied to new customers with a 5/8 inch meter. The larger meters would receive increased charges based on American Water Works Association's prescribed meter equivalency ratios. Those charges are set forth on **LMD-1**.

IX. CONCLUSION

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

A. Yes it does.

Aquarion Water Company of New Hampshire

SYSTEM DEVELOPMENT CHARGE
Test Year Ended March 31, 2008

Cost of Upsizing Transmission and Distribution Mains

Total Feet of Main	721,901		
Total Number of Customers	8,770		
Feet per Customer	82		
Adjustment to account for customer on both sides of road - divide by 2	41	41 ft	
Price Differencial for Pipe upsizing Replacing 8" Main with 12" Main		$ 19	
Calculated System Development Charge for a new 5/8" meter customers			$ 779
Proposed System Development Charge for a new 5/8" metered customer			**$ 779**

Design of Charges for Connections Larger Than 5/8"

Meter Size	Capacity GPM	Ratio to 5/8"	**Proposed Fee**
5/8"	20	1.00	**$ 779**
3/4"	30	1.50	**$ 1,169**
1"	50	2.50	**$ 1,948**
1 1/2"	100	5.00	**$ 3,895**
2"	160	8.00	**$ 6,232**
3"	320	16.00	**$ 12,464**
4"	500	25.00	**$ 19,475**

Note: The Company is proposing that the charge for meters larger than 4 inch be determined on a case by case basis.

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

LINDA M. DISCEPOLO

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

Barbara Tsoupas

Notary Public

BARBARA TSOUPAS
NOTARY PUBLIC
My Commission Expires July 31, 2009