

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DW 10-___

2010 WATER INFRASTRUCTURE
AND CONSERVATION ADJUSTMENT FILING

DIRECT TESTIMONY OF

TROY M. DIXON

NOVEMBER 1, 2010

1 **Q. Mr. Dixon, please state your name and business address.**

2 A. My name is Troy M. Dixon, and my business address is 600 Lindley Street,
3 Bridgeport, Connecticut 06606.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Aquarion Water Company of Connecticut, Inc. (“Aquarion” or
7 the “Company”) as Director of Rates and Regulation.

8

9 **Q. Please describe your educational background.**

10 A. I have a Bachelor’s Degree in economics and accounting from Holy Cross in
11 Worcester, Massachusetts.

12

13 **Q. Please describe your business/professional background.**

14 A. I was hired by Aquarion in February 2003 as a Regulatory Compliance Specialist.
15 During my employment, I have achieved positions of increasing responsibility. In
16 September 2009, I was promoted to my current position. As Director of Rates
17 and Regulation, I am responsible for the preparation and presentation of rate case
18 filings for Aquarion’s regulated water affiliates.

19

20 **Q. Have you previously testified before the New Hampshire Public Utilities
21 Commission (“PUC” or the “Commission”)?**

22 A. I have not provided live testimony before the PUC, but I did submit written pre-
23 filed testimony in Docket DW 08-098, the Company’s most recent rate case.

24

1 **Q. What is the purpose of your testimony?**

2 A. My testimony addresses the proposed surcharge related to completed WICA
3 eligible projects in service as of September 30, 2010. Pursuant to the
4 Commission's Order No. 25,019 dated September 25, 2009 in Docket DW 08-098
5 approving the settlement agreement, when Commission-approved projects are
6 used and useful, the Company may apply for approval of a WICA adjustment to
7 collect the revenue requirement associated with those completed projects.

8 Specifically, Section II.H.3 of the settlement agreement provides:

9 The Company agrees to file the final project costs, supporting
10 documentation and proposed WICA adjustment for completed projects
11 previously determined to be WICA eligible. Such filing shall be at least
12 sixty days prior to the proposed effective date of any proposed rate
13 change. The WICA rate shall become effective on the later of January 1
14 following the Company's filing with the Commission seeking
15 implementation of a WICA rate change or sixty days after the date of such
16 filing; provided, however, that if the Commission determines that further
17 investigation or consideration of any proposed WICA is needed, it may
18 order that the proposed WICA rate become effective on a temporary basis,
19 in which case the rate shall be subject to reconciliation pending final
20 determination by the Commission. (In such case, reconciliation shall be
21 only for final determination of the costs to be included in the WICA, not
22 for any positive or negative variances in actual revenues collected versus
23 projected revenues.) No project shall be included for recovery in the
24 WICA unless the project is used and useful in providing service to
25 customers or will be used and useful by the effective date of the WICA.

26
27 Attachment CM-1 to Carl McMorran's testimony identifies these completed
28 projects and their respective costs. The resultant surcharge and components are
29 derived in Attachment TD-1 to my testimony. This surcharge incorporates
30 depreciation, property tax expense, income tax expense and associated return on
31 completed projects.

32

1 **Q. Mr. Dixon, please summarize the surcharge requested in this filing.**

2 A. The 2010 projects listed in Attachment CM-1 produce a surcharge of 1.4896% to
3 be applied to customers' existing water service billings. The surcharge, as per
4 Order No. 25,019, is to be applied equally to all classes of customers. The WICA
5 mechanism approved by the Commission has an annual cap of 5% and an
6 aggregate cap of 7.5% between rate cases, neither of which is exceeded by the
7 surcharge being proposed here. Consistent with the settlement in Docket DW 08-
8 098, the Company is seeking authorization to implement this surcharge on a
9 service-rendered basis effective as of January 1, 2011.

10

11 **Q. What is the impact to the average residential customer?**

12 A. The typical residential customer using 67,000 gallons of water per year currently
13 pays \$121.72 quarterly. The proposed WICA surcharge would increase the bill of
14 such a customer by \$1.81 per quarter, or \$0.60 per month.

15

16 **Q. Please elaborate on the contents of Attachment TD-1.**

17 A. Attachment TD-1 consists of three pages detailing the calculations of the
18 proposed surcharge.

19 **Page One – Summary Calculation:** This schedule multiplies the September 30,
20 2010 used and useful project totals by the rate of return authorized by the
21 Commission in Docket DW 08-098. Additions to this amount are made to
22 account for (1) an income tax gross-up on the equity portion of the rate base
23 investment, (2) depreciation expense, and (3) property taxes for the period from

1 April 1, 2010 through December 31, 2010. These components derive a total
2 annual surcharge amount of \$89,142. The surcharge is then taken as a percentage
3 of the last previously authorized water service revenues (net of miscellaneous
4 charges). The result is a surcharge of 1.4896%.

5 **Page Two – Calculation by Project:** This page shows the calculation of the
6 surcharge on a project by project basis.

7 **Page Three – Detailed Support:** This page identifies additional detail used in the
8 derivation of property taxes and depreciation. Items include (1) PUC account
9 numbers and depreciation rates, (2) project towns and respective property tax mil
10 rates, and (3) associated retirements that decrease the property tax and
11 depreciation calculations. Depreciation expense is calculated by reducing the
12 eligible project costs by the amount of retirements and multiplying the resultant
13 figure by the Commission-approved depreciation rates. Property tax is calculated
14 similarly – eligible project costs less retirements multiplied by the most recent mil
15 rate for the respective town. The figure is then divided by twelve and multiplied
16 by nine to reflect the fact that the Company will only incur property tax expense
17 for the last nine months of the 2011 surcharge period. Finally, all information on
18 page three is shown on a project by project basis and supports the figures on
19 pages one and two.

20

21 **Q. Please explain Attachment TD-2.**

22 A. Attachment TD-2 provides the proposed updated tariff pages associated with the
23 WICA surcharge.

1

2 **Q. Please explain Attachment TD-3.**

3 A. Attachment TD-3 is a revised sample bill form as designed to reflect the WICA
4 surcharge.

5

6 **Q. Does the Company also have detailed documentation to support the project
7 costs for which the proposed surcharge is applicable?**

8 A. Yes, the Company will provide the Commission staff with the appropriate
9 supporting invoices and system documentation in order to fully justify the project
10 totals.

11

12 **Q. Does this conclude your testimony?**

13 A. Yes.

14

Aquarion Water Company of New Hampshire
2010 Annual WICA Surcharge Filing

**WATER INFRASTRUCTURE AND CONSERVATION ADJUSTMENT
CALCULATION OF SURCHARGE**

Line					<u>Schedule Ref.</u>	
1						
2	Total Investment through 09/30/2010				TD-1, Pg 3 Col 6 Ln 13	\$ 721,546
3						
4	Allowed Return on Rate Base				TD-1, Pg 2 Col 8	<u>7.72%</u>
5						
6	Allowed Return on Investment				Ln 2 X Ln 4	\$ 55,703
7						
8	Income Tax on Equity Component					
9						
10		(a)	(b)	(c)	(d)	
11		Weighted	Tax	Pre tax	Tax Gross Up	
12		Cost	Multiplier	Cost	Col (c) - Col (a)	
13						
14	Debt	3.64%	1.00	3.64%	0.00%	
15	Equity	<u>4.08%</u>	1.68	<u>6.85%</u>	<u>2.77%</u>	
16		7.72%		10.49%	2.77%	
17						
18	Total Eligible Investment (Line 2 above)				\$	721,546
19						
20	Income Tax Expense				Ln 16 Col D X Ln 18	19,987
21						
22	Depreciation Expense				TD-1, Pg 3 Col 8 Ln 13	10,178
23						
24	Property Tax Expense				TD 1, Pg 3 Col 10 Ln 13	3,274
25						
26	Adjustment: Annual Revenues Allowed				Lines 6 through 25	<u>\$ 89,142</u>
27						
28						
29	Base Revenues on which Adjustment will be applied					
30	Revenues allowed DW 08-098					\$ 6,094,612
31	Misc. Charges not subject to WICA					<u>(110,530)</u>
32						<u>\$ 5,984,082</u>
33						
34	Surcharge Percent (Line 28 divided by Line 36)					1.4896%
35						

Aquarion Water Company of New Hampshire
2010 Annual WICA Surcharge Filing

WATER INFRASTRUCTURE & CONSERVATION ADJUSTMENT
COMPLETED PROJECTS

Line	Project Name or Class Category **	1 Estimated Completion Date**	2 Actual Completion Date	3 Estimated Project Cost**	4 Actual Project Cost	5 Depreciation Expense	6 Property Tax Expense	7 Income Tax Expense	8 Rate of Return	9 Annual Retail Revenues	10 = (4 x 8) + 5 + 6 + 7 WICA Adjustment Dollars
1	Production Meters	30-Sep-10	30-Sep-10	*	\$ 1,414	\$ 62	\$ 8	\$ 39	7.72%	\$ 6,094,612	\$ 219
2	Atlantic Avenue- Mill Road to Woodland Road	30-Sep-10	30-Sep-10	\$ 588,000	574,020	7,712	2,637	15,900	7.72%	\$ 6,094,612	70,564
3	Customer Meters	30-Sep-10	30-Sep-10	125,000	104,061	1,251	300	2,882	7.72%	\$ 6,094,612	12,467
4	Hydrants	30-Sep-10	30-Sep-10	20,000	11,774	188	58	326	7.72%	\$ 6,094,612	1,482
5	Services	30-Sep-10	30-Sep-10	20,000	15,797	241	128	438	7.72%	\$ 6,094,612	2,026
6	Valves	30-Sep-10	30-Sep-10	5,000	14,480	724	142	401	7.72%	\$ 6,094,612	2,385
TOTALS				<u>\$758,000</u>	<u>\$ 721,546</u>	<u>\$ 10,178</u>	<u>\$ 3,274</u>	<u>\$ 19,987</u>			<u>\$ 89,142</u>

* Emergency Replacement

** Per Docket Filing DW 09-211

**Aquarion Water Company of New Hampshire
2010 Annual WICA Surcharge Filing**

**WATER INFRASTRUCTURE AND CONSERVATION ADJUSTMENT
ELIGIBLE PROJECTS PLACED IN SERVICE**

Line	Description of Project	Street	Town	1 PUC Acct	2 Depr Rate	3 Type of Project*	4 Date in Service	5 Date of 1st Filing	6 Eligible Capital Costs	7 Retirements	8 = (6 - 7) x 2 Depreciation Expense	9 Mil Rate	10 = (((6-7)/1000) x 9)/12)*9 Prop. Tax Expense**
1	Production Meters		Stratham	328	4.40%	Other Pumping	9/30/2010	11/1/2010	\$1,414	\$ -	\$ 62	7.92	\$8
2	Atlantic Avenue- Mill Road to Woodland Road		North Hampton	343	1.36%	Main Replacement	9/30/2010	11/1/2010	\$574,020	\$ 6,941	\$ 7,712	6.20	\$2,637
3	Customer Meters		North Hampton	346	3.80%	Meter Replacement	9/30/2010	11/1/2010	\$12,139	\$ 8,296	\$ 146	6.20	\$18
4	Customer Meters		Hampton	346	3.80%	Meter Replacement	9/30/2010	11/1/2010	\$76,508	\$ 52,287	\$ 920	14.01	\$254
5	Customer Meters		Rye	346	3.80%	Meter Replacement	9/30/2010	11/1/2010	\$15,415	\$ 10,535	\$ 185	7.48	\$27
6	Hydrants		North Hampton	348	2.40%	Hydrants	9/30/2010	11/1/2010	\$2,466	\$ 1,950	\$ 12	6.20	\$2
7	Hydrants		Hampton	348	2.40%	Hydrants	9/30/2010	11/1/2010	\$3,626	\$ 556	\$ 74	14.01	\$32
8	Hydrants		Rye	348	2.40%	Hydrants	9/30/2010	11/1/2010	\$5,682	\$ 1,444	\$ 102	7.48	\$24
9	Services		North Hampton	345	1.84%	Services	9/30/2010	11/1/2010	\$2,186	\$ 535	\$ 30	6.20	\$8
10	Services		Hampton	345	1.84%	Services	9/30/2010	11/1/2010	\$13,611	\$ 2,138	\$ 211	14.01	\$121
11	Valves		Hampton	349	5.00%	Other T&D Plant	9/30/2010	11/1/2010	\$12,436	\$ -	\$ 622	14.01	\$131
12	Valves		Rye	349	5.00%	Other T&D Plant	9/30/2010	11/1/2010	\$2,044	\$ -	\$ 102	7.48	\$11
13								TOTALS	\$721,546	\$ 84,682	\$ 10,178		\$3,274
14									to TD-1,		to TD-1,		to TD-1,
15									Pg 1, Ln 2		Pg 1, Ln 22		Pg 1, Ln 24

16 * Type of Project (designations will be given for various types of projects)
17 **Property Tax Expense is for a six month period since rates will be in effect in January 2011.
18

WATER INFRASTRUCTURE AND CONSERVATION ADJUSTMENT

In addition to the net charges provided for in this Tariff, a Water Infrastructure and Conservation Adjustment (“WICA”) surcharge of ~~FBI~~1.4896% will apply to all bills issued on or after January 1, 2011.

I. General Description

Purpose: To recover the fixed costs (depreciation, property taxes and pre-tax return) of certain Commission-approved non-revenue producing system improvement projects completed and placed in service and to be recorded in the individual accounts, as noted below, between base rate cases. In addition, WICA provides the Company with the resources to accelerate asset replacement for infrastructure for the purpose of improving or protecting water quality and the reliability of service and to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act.

Eligible Property: The WICA-eligible property will consist of the following:

services (account 333), meters (account 334) and hydrants (account 335) installed as in-kind (i.e., same size) replacements for customers;

mains and valves (account 331) installed as replacements for existing facilities that have either reached the end of their useful life, are worn out or are in deteriorated condition,

main cleaning and re-lining projects and relocations that are non-reimbursable (account 331);

replacement of production meters (account 304); and

replacement of pressure reducing valves (accounts 309, 331);

II. Computation of the WICA

Calculation: The initial charge, effective January 1, 2011, will be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between January 1, 2010 and September 30, 2010. Thereafter, the WICA will be updated on an annual basis to reflect eligible plant additions placed in service during the twelve month period ending three months prior to the effective date of each WICA update. Thus, changes in the WICA rate will occur as follows:

Issued: ~~September 25, 2009~~January 1, 2011 Issued by: _____
Donald Morrissey

Effective: ~~September 25, 2009~~January 1, 2011 Title: Chief Financial Officer
As authorized in order 25,019 in Case DW 08-098

<u>Effective Date Of WICA Change</u>	<u>Date To Which WICA Eligible Plant Additions Reflected</u>
January 1, 2XXX+1	September 30, 2XXX

The fixed costs of eligible infrastructure system improvement projects will consist of depreciation, property taxes and pre-tax return, calculated as follows:

Depreciation: The depreciation expense will be calculated by applying the depreciation rates employed in the Company's last base rate case for the plant accounts to the original cost of WICA-eligible property minus the corresponding retirement unit recorded.

Property Taxes: For the first year that a WICA for any particular project is in effect, the property tax expense will reflect an estimate of the tax expense for such projects based on the tax rate then in effect. If such property taxes will be due for only a portion of the calendar year, then the WICA for the first year shall reflect only the property taxes projected to be paid. For the second and subsequent years that a WICA for those projects is in effect, the WICA shall be determined using the taxes due and owing for such projects based on the tax bill for a full tax year. The WICA shall not be adjusted in subsequent years, regardless of any change in the taxes originally assessed.

Pre-tax return: The pre-tax return will be calculated using the state and federal income tax rates. The cost of equity and debt will be the rates approved in the Company's last base rate case, DW 08-098, or a subsequent docket.

WICA Surcharge Amount: The charge will be expressed as a percentage carried to four decimal places and will be applied to the effective portion of the total amount billed to each customer under the Company's otherwise applicable rates and charges.

Formula: The formula for calculation of the WICA surcharge is as follows:

$$WICA = \frac{(ISI \times PTRR) + Dep + PT}{BRWR}$$

Where:

Issued: September 25, 2009

Issued by: _____
Donald Morrissey

Effective: September 25, 2009
As authorized in order 25,019 in Case DW 08-098

Title: Chief Financial Officer

ISI= the original cost to the Company of eligible infrastructure system improvement projects.

PTRR= the pre-tax return rate applicable to eligible infrastructure system improvement projects.

Dep= annual depreciation expense related to eligible infrastructure system improvement projects.

PT= annual property taxes related to eligible infrastructure system improvement projects.

BRWR= base retail water revenues as approved by the Commission in the Company's last rate proceeding, DW 08-098, or a subsequent docket.

Annual updates: Supporting data for each annual update will be filed with the Commission and the Office of Consumer Advocate sixty (60) days prior to the effective date of the update. The Company shall also provide notice to the Towns.

III. Safeguards

Cap: The amount of the WICA applied between general rate case filings shall not exceed seven and one-half percent (7.5%) of the Company's annual retail water revenues as approved in its most recent rate filing, and shall not exceed five percent (5%) of such revenues for any twelve-month period.

Audits: The WICA will be subject to audit prior to the determination by the Commission.

New Base Rates: The WICA charge will be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the WICA. Thereafter, only the fixed costs of new eligible plant additions, that have not previously been reflected in the Company's rate base, would be reflected in the annual updates of the WICA.

Customer Notice: Customers shall be notified of changes in the WICA by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing. Before sending, the Company will review the notice with the Commission's Consumer Affairs division.

Issued: September 25, 2009

Issued by: _____
Donald Morrissey

Effective: September 25, 2009
As authorized in order 25,019 in Case DW 08-098

Title: Chief Financial Officer



Stewards of the Environment

Contact Us: (800) 403-4333
 Website: www.aquarionwater.com

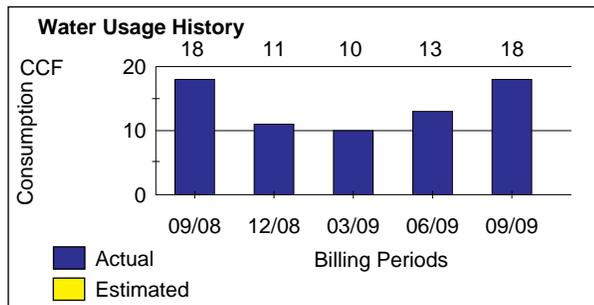
Account Number: 200000000
Total Charges: \$94.16
Statement Date: 09/17/09
Service for: ACADIA AVE
 HAMPTON NH 03842

Aquarion Water Company
 of New Hampshire, Inc.
 Docket No. DW 10-____
 Attachment TD-3
 Page 1 of 2

Meter #	Billing Period	Days	Meter Reading	Reading Type	Usage	Next Billing
78417359 (5/8")	06/16/09 - 09/15/09	92	From / To 466 / 484	Actual	18 hundred cubic feet (13 thou. g)	Approximately 12/14/09

Account Detail

Outstanding Balance	76.96
Payment Received (07/03/2009), Thank You	- 76.96
Outstanding Balance	0.00
Current Charges	
Service Charge	33.81
Usage Charge 18 ccf @ \$3.2760	58.97
WICA	1.38
Total Current Balance due by 10/10/2009	\$94.16
Total Balance	\$94.16
Amount Due After 10/19/2009	\$98.86



SPECIAL NOTES

CONTACT INFORMATION: Please call our offices for questions about your account, payment locations or to obtain a copy of our rate schedules at (603) 926-3319 or toll-free (800) 403-4333. For after-hour emergencies, call (603) 926-3319 ext. 9.

****WICA**** This bill contains a Water Infrastructure and Conservation Adjustment (WICA) charge, calculated as 1.4896% of the total Service and Usage charges.



Stewards of the Environment

Aquarion Water Company of NH
 1 Merrill Industrial Drive
 Hampton, NH 03842

ACCOUNT NUMBER	TOTAL	PAYMENT ENCLOSED
200204327	\$94.16	

Pay Current Charges By 10/19/2009

Please indicate account number and amount enclosed to ensure prompt credit to your account.

AQUARION CUSTOMER
 ACADIA AVENUE
 HAMPTON NH 03842

|||||
 Aquarion Water Company of NH
 PO Box 821
 LEWISTON ME 04243-0821

Contact our Customer Service Center:

For questions regarding rates, billing, collections or service, please contact us toll free at (800) 403-4333 or locally at (603) 926-3319.

You may also write us at:

Aquarion Water Company of New Hampshire
1 Merrill Industrial Drive
Hampton, NH 03842

Our walk-in office hours are Monday through Friday, 8:00 a.m. - 4:30 p.m.

Visit our website at www.aquarionwater.com to sign up for ***aquariOnline***; receive and view your bill on-line. It's easy, fast and free!

After-hours emergencies: (603) 926-3319, ext. 9

Your Right to Dispute Your Water Bill:

If you believe your bill is inaccurate or for any other reason you wish to dispute it, please call us by telephone (603) 926-3319 or (800) 403-4333 toll-free, or by mail or in person at the address noted above to explain what you believe to be in error. We will promptly investigate your complaint and notify you of the resolution.

If you are not satisfied with the decision of Aquarion relative to your bill and you still consider the bill to be inaccurate in any respect, or if you have any other complaint regarding the matter, you have the right to appeal to the New Hampshire Public Utilities Commission.

State of New Hampshire
Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429
(603) 271-2431
(800) 852-3793 (NH only)

**WICA Charge Explanation: Your current bill includes a Water Infrastructure and Conservation Adjustment (WICA) charge as approved by the New Hampshire Public Utilities Commission. This adjustment covers costs of completed infrastructure improvements that have both enhanced reliability of water service and its delivery to our customers. Further information may be obtained from our website www.aquarion.com or by contacting customer service at (800) 403-4333 or locally at (603) 926-3319.

Comments:

Please indicate address or telephone number changes

NAME: _____

ADDRESS: _____

CITY: _____

STATE: _____ ZIP _____

TELEPHONE: _____