

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

<b>ORIGINAL</b>
N.H.P.U.C. Case No. <i>DW 12-085</i>
Exhibit No. <i>#1</i>
Witness <i>M Naylor + Troy M. Dixon</i>
<b>DO NOT REMOVE FROM FILE</b>

RE: AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DOCKET NO. DW 12-085

DIRECT PREFILED TESTIMONY OF TROY M. DIXON

In Support of Temporary Rates

May 14, 2012

1 **Q. Please state your name and business address.**

2 A. My name is Troy M. Dixon. 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, Inc. (the “Company”),  
8 as Director of Rates and Regulation.

9

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

11 A. I have a Bachelor’s Degree in economics and accounting from College of the  
12 Holy Cross in Worcester, MA.

13

14 **Q. Please describe your business experience.**

15 A. I was hired by AWCCT in February 2003, as a Regulatory Compliance Specialist.  
16 During my employment, I have taken on positions of increasing responsibility. In  
17 October 2009, I was promoted to Director of Rates and Regulation for AWCCT  
18 where I am responsible for the preparation and presentation of rate case filings for  
19 AWCCT and other regulated water affiliates.

20

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

23 A. Yes, I have testified on behalf of Aquarion Water Company’s regulated water  
24 utility subsidiaries in rate filings and other regulatory proceedings in Connecticut  
25 and Massachusetts. In New Hampshire, I have provided written testimony before  
26 the Public Utilities Commission (“Commission”) in the Company’s 2008 general  
27 rate proceeding, DW 08-098, and the Water Infrastructure and Conservation  
28 Adjustment (“WICA”) dockets DW 10-293 and DW 11-238.

29

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

2 A. My testimony is intended to support the Company's request for temporary rates.  
3 The Company's current rates are insufficient to allow it to earn a reasonable  
4 return on the capital invested to provide service to the Company's customers. The  
5 Company's last authorized return on equity, established by the Commission in its  
6 Order No. 25,019, in Docket DW 08-098, is 9.75%. The Company's earned  
7 return in the test year, the twelve months ended December 31, 2011, was 3.86%

8

9 **Q. How does the Company's authorized return compare to the requested return  
10 in this docket?**

11 A. As explained in my written testimony relating to the Company's request for  
12 permanent rates, the Company is requesting a return on equity of 10.25% and an  
13 overall rate of return on investment of 7.87%. This compares to the currently  
14 authorized return on equity of 9.75% and an overall authorized return on  
15 investment of 7.72%.

16

17 **Q. What are the reasons that the Company has been unable to achieve its  
18 authorized return on equity?**

19 A. There are two main reasons that the Company has been unable to achieve its  
20 authorized return. First, the Company has experienced a steady increase in  
21 operating expenses, resulting in particular from increases in property taxes  
22 assessed by the communities it serves. Second, the Company's sales volumes  
23 have continued their downward trend, so that the volumes assumed for purposes  
24 of setting the Company's rates in its last general rate case have not actually been  
25 achieved.

26

27 **Q. Please explain Temporary Rates Schedule No.A.**

28 A. Schedule A illustrates the Company's revenue deficiency compared to the  
29 Company's last allowed return on equity for the twelve months ending December  
30 31, 2011, the test year in this docket. The calculation is based on the following:

- 1 • 13 month rate base adjusted for test year ended utility plant and accumulated  
2 depreciation. Given the sustained decline in consumption experienced by the  
3 Company and the fact that vast majority of its rate base additions are non-  
4 revenue producing, the Company believes that it is appropriate to update rate  
5 base with year end utility plant balances.
- 6 • Composite rate of return of 7.66% made up of last allowed ROE of 9.75%,  
7 current pro forma weighted debt cost of 6.19% and current cost of preferred  
8 stock of 6.00%.
- 9 • Adjusted net operating income of \$1,274,29. (The adjustments to operating  
10 income are detailed below.)

11 The above items yield a revenue requirement of \$732,078, or 12.03% to cover the  
12 associated income deficiency.

13  
14 **Q. Please discuss the calculation of net operating income for purposes of**  
15 **temporary rates.**

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

- 17 • Operating revenues are adjusted to eliminate the effect of unbilled revenues  
18 and reflect the revenues of the most recently authorized WICA surcharge.  
19 Antenna rental income is increased for known changes and late payment fees  
20 are increased to correspond to the overall temporary relief sought.
- 21 • Operation and Maintenance Expenses remain at test year levels.
- 22 • Other taxes and other income and expense are left at test year levels.
- 23 • Depreciation is reflected at test year levels.
- 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**  
28 **that is “sufficient to yield not less than a reasonable return on the cost of the**  
29 **property of the utility used and useful in the public service less accrued**  
30 **depreciation, as shown by the reports of the utility filed with the**  
31 **Commission...” Referring to the Company’s reports on file with the**

1           **Commission, how does the return being earned by the Company compare to**  
2           **its last allowed return?**

3           A.     Using the rate base calculated based on test year-end utility plant and expense  
4           levels in the Company's most recently filed annual report, the Company's overall  
5           rate of return is 5.23% and its return on equity is 3.86%, as compared to its last  
6           allowed overall rate of return of 7.72% and return on equity of 9.75%.

7

8           **Q.     Please explain the Company's approach in determining the level of**  
9           **temporary rate relief it is requesting.**

10          A.     The Company is requesting temporary rates at approximately 66% of the overall  
11          permanent rate relief sought in this docket. The Company believes that it has  
12          presented temporary rates in a manner that is easily auditable by the Commission.  
13          A swift determination of temporary rates allows the Company personnel and  
14          Commission staff to focus their energies on the examination and determination of  
15          permanent rates. At the same time, this allows the Company to mitigate a larger  
16          surcharge for its customers at the time at which permanent rates are set.

17

18          **Q.     Has the Company provided schedules demonstrating the need for temporary**  
19          **rates at the level requested?**

20          A.     Yes. The Company's request for a 12.03% temporary rate increase is supported  
21          by the calculations presented in Temporary Rate Schedule A and Schedules 1  
22          through 5. Schedule A from the Company's permanent rate filing demonstrates  
23          the need for a permanent rate increase of 18.3%. The Company believes that its  
24          request for temporary rates at a level that is roughly two thirds of the permanent  
25          rate request is reasonable.

26

27          **Q.     Mr. Dixon, please describe the methodology for allocating temporary rates**  
28          **among customer classes.**

29          A.     The temporary rates proposed by the Company were designed by applying the  
30          requested increase on an across the board basis. Because the Company is not  
31          seeking an increase to many of the miscellaneous charges, the effective increase

1 to all affected areas is approximately 12.30%. This increase is applied to all rates  
2 with the exception of the Water Infrastructure and Conservation Adjustment  
3 (“WICA”) surcharge and, as there is no proposed modification to the current  
4 billing/rate structures, the uniform increase in pricing will also yield a uniform  
5 increase to requested revenues at the customer class level.

6

7 **Q. How is WICA impacted by temporary rates?**

8 A. The WICA charge remains unchanged. It will not be reset until the Commission  
9 issues an order on permanent rates.

10

11 **Q. Mr. Dixon, does this conclude your testimony?**

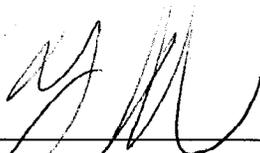
12 A. Yes, with regard to the subject of temporary rates, it does.

AFFIDAVIT

STATE OF NEW HAMPSHIRE PUBLIC UTILITY COMMISSION

TROY DIXON, being first duly sworn, deposes and states:

That he is the Troy Dixon whose direct testimony accompanies this Affidavit, that said direct testimony is a true and accurate statement of his answers to the questions contained herein, and that he adopts those answers as his sworn testimony in this proceeding.

  
\_\_\_\_\_  
TROY DIXON

SWORN TO and SUBSCRIBED before me this 7<sup>th</sup> day of May, 2012

  
\_\_\_\_\_  
Notary Public

