

| | |
|-------------------------|-----------|
| ORIGINAL | |
| N.H.P.U.C. Case No. | DW 12-085 |
| Exhibit No. | 15 |
| Witness | Panel 2 |
| DO NOT REMOVE FROM FILE | |

1
2
3
4
5
6
7
8
9
10
11
12
13

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

RE: AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DOCKET NO. DW 12-085

DIRECT TESTIMONY OF

FREDERICK W. WELCH

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

15 A. My name is Frederick W. Welch, and I am the Town Manager of the Town of
16 Hampton. My business address is 100 Winnacunnet Road, Hampton, New
17 Hampshire 03842.

18 **Q. What is the nature of your involvement in this proceeding?**

19 A. Since March of 2007, I have been the Town Manager of the Town of Hampton,
20 which has been allowed by the Commission to intervene relative to Aquarion
21 Water Company of New Hampshire, Inc.'s ("Aquarion" or the "Company")
22 rate request to the Public Utilities Commission (the "Commission") in Docket
23 No. DW 12-085. The Town of Hampton has approximately 76% of the
24 residential consumers served by Aquarion and approximately 55% of the public
25 fire hydrants for which Aquarion makes water available.

26 **Q. What are the major concerns the Town has with respect to Docket No. DW**
27 **12-085?**

28 A. The Town of Hampton Board of Selectmen has directed that this Petition be
29 vigorously opposed in the Town's behalf for a number of reasons. Among these

1 reasons are the following. First, the Petition is seeking a very high, excessive rate
2 increase of 18.3 % with a revenue requirement of \$1,113,931. The current amount
3 of increase being sought, from the Company's responses to the data request in Staff
4 3-11, is 17.71% with a revenue requirement of \$1,077,924. This follows upon a
5 double digit rate increase in 2009 (in DW 08-098) that imposed a 17.44% increase
6 on consumers, and an 18.64% rate increase that was imposed in 2006 (in DW 05-
7 119). Second, the petitions for rate increase by Aquarion have become more
8 frequent, in spite of the institution of a pilot WICA program in 2009: whereas rate
9 increases used to be sought more than 6 years apart (in DR 91-023, and then in DW
10 99-057, and then in DW 05-119), now we are experiencing rate increase petitions
11 that are only 3 years apart: (in DW 05-119, and then in DW 08-098, and then in
12 DW 12-085). Third, a major portion of the increase in revenues sought by
13 Aquarion to be authorized is to make up for losses in revenue due to declines in
14 water consumption by consumers, thereby penalizing consumers for conservation.
15 Fourth, Aquarion is seeking to have the Commission grant a rate of return on equity
16 that is excessive—10.25%, and that would represent an increase of .50% over the
17 9.75% rate of return on equity that was granted by the settlement, to which the
18 Town of Hampton was not a party, in DW 08-098. In the prevailing economic
19 climate, where consumers can make nowhere near the return that Aquarion seeks to
20 make, and the cost of capital has markedly decreased, the rate being sought is
21 shocking. Fifth, Aquarion seeks in this case to make the trial WICA program
22 permanent, which is being used by Aquarion to achieve annual rate increases

1 without achieving the goals of decreasing rate shock and the frequency of rate
2 petitions. I will add greater detail to some of these reasons below.

3 **Q. For public entities like Hampton, does the rate of increase being sought**
4 **exceed even the figure of 18.3%?**

5 A. Yes, the bill analysis provided by Aquarion in its November 19, 2012 response
6 to data requests reveals that Aquarion is seeking a total change in revenue of
7 22.51% for public fire service as well as private fire service [Exhibit 1 attached-
8 -Bill Analysis Schedules 5G and 5H (from Attachment A to Staff 3-11)]. This
9 larger percentage rate increase affects 268 public fire hydrants in the Town of
10 Hampton, which has over 55% of the hydrants served by Aquarion water. The
11 resulting revenue of \$468,786 is not based upon consumption, but rather upon
12 availability of water. This is an additional cost that all property taxpayers bear
13 over and above what they pay for their own private consumption of Aquarion
14 Water.

15 **Q. What has the Town of Hampton learned from discovery in this case about**
16 **the amount of revenue that Aquarion is seeking to have the Commission**
17 **award to compensate Aquarion for loss of revenues due to water**
18 **conservation on the part of consumers?**

19 A. In response to the Town's data requests, the Company has indicated that
20 \$214,000 of the \$1,113,931 of increased revenues it is seeking in this case [or
21 19.21% of them] are due to declines in its ratepayers' consumption of water.
22 [Exhibit 2 attached—Aquarion's response dated July 25, 2012 to Hampton 1-3].

1 As early as the pre-hearing conference, the Commissioners have expressed
2 concerns here about the Company's being in a "downward spiral" in terms of
3 declining consumption and the Company's continually seeking rate increases
4 based on revenue needs that are based upon how things were done in the past.
5 See Transcript of July 11, 2012 Prehearing Conference at pages 18-19. The
6 Company was challenged to look at things differently in this case and questioned
7 whether the Company should change the way it looks at things. The Company
8 has not yet done so in this case, and the Commission in its December 17, 2012
9 letter has directed that Aquarion be prepared to address a number of questions
10 concerning Rate Design that include how to account for the success of
11 consumers in reducing water usage.

12 **Q. How has the Town of Hampton responded to Aquarion's approach to**
13 **seeking to have the Commission authorize an increase in its return on equity**
14 **without expert testimony?**

15 A. Aquarion has sought an increase in its authorized return on equity from 9.75%
16 to 10.25%, and is so far is doing so without presenting any expert testimony to
17 support its position. In response to the Town's data requests, the Company has
18 indicated that this increase would provide \$77,360 of the proposed revenue
19 requirement sought in this case. [Exhibit 3 attached—Aquarion's response dated
20 October 10, 2012 to Hampton 2-3]. The Town has retained a rate of return
21 expert in this case, David C. Parcell, who has previously filed testimony and/or
22 testified in about 500 utility proceedings before some 50 regulatory agencies in

1 the United States and Canada, dating back to 1972. He has previously presented
2 testimony for the PUC Staff to this Commission in the Pennichuck water cases.
3 The Town is filing with my Testimony, a detailed report by Mr. Parcell in
4 which he recommends that the return on equity for Aquarion be reduced to
5 8.3%. Utilizing the answer Aquarion provided in response to Hampton 2-3, a
6 decrease of 1.95% in the rate of return over what Aquarion is requesting would
7 represent a difference of about \$301,704 in the increased revenue requirement
8 of \$1,113,931 that Aquarion is seeking.

9 **Q. What is the basis for the Town's opposition to making the WICA program**
10 **permanent?**

11 A. In behalf of the Board of Selectmen of Hampton, the Hampton Town Attorney
12 has filed with the Commission a detailed letter dated December 19, 2012 citing
13 the reasons for the Board of Selectmen's opposition to the 2013 WICA
14 surcharge being sought in DW 12-325. The rate of return in that case is based
15 on the same rate of return on equity of 9.75% that was settled upon by others in
16 DW 08-098. The WICA program and the rate of return that it has been based
17 upon for the last 2 years (in DW 10-293 and DW 11-238) has not been re-
18 analyzed. Based upon the frequency of rate increases being sought, the amount
19 of those increases, and Mr. Parcell's testimony, the WICA program should not
20 be made permanent and needs to be fully evaluated, as promised in the
21 Commission's Order No. 25,311 in DW 11-238 (page 5) where the Commission
22 stated "We note Hampton's objections but we conclude that it is prudent to

1 allow the pilot to continue until the time of Aquarion's rate filing, anticipated
2 next year, at which time the pilot will be fully evaluated." (Emphases added).

3 The Board of Selectmen believe that time is now and that this case should not be
4 viewed in isolation from DW 12-325. The Town would like to note for the
5 Commission that based upon the Company's November 19, 2012 response to
6 Hampton 3-20 [Exhibit 4 attached], the Company intends to seek a step increase
7 in this Docket 12-085 relating to the WICA surcharge that is based upon the
8 incremental portion of the WICA surcharge that is driven by Aquarion's 18.3%
9 rate increase.

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

11 A. Yes, it does, but the Town reserves the right to supplement my testimony and to
12 present the testimony of others in behalf of its positions at the hearing of this
13 matter.

14

15

16

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to Staff Data Requests—Set 3

Data Request Received: November 5, 2012
Request No.: Staff 3-11

Date of Response: November 19, 2012
Witness: T. Dixon

REQUEST: Please provide updated permanent rate filing schedules which reflect the changes indicated in the following Staff Data Requests: 1-1, 1-11, 1-14, 1-19, 1-21, 1-22, 1-23, 1-24, 1-25, TS1-3, 2-1, 2-2, 2-5, 2-13, 2-20, 3-5, 3-6, 3-9. Please also include any other amendments to the rate filing as the Company feels is necessary resulting from its responses to other Staff, OCA, Hampton or North Hampton data requests.

RESPONSE: Please refer to Staff 3-11 Attachment A.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

EXHIBIT 2

DW 12-085

Aquarion Water Company's Responses to Hampton Data Requests—Set 1

Data Request Received: July 19, 2012
Request No.: Hampton 1-3

Date of Response: July 25, 2012
Witness: T. Dixon

REQUEST: Schedule No. A; Page 1 of 1 (Permanent Rate Petition)

Please indicate how much of the \$1,113,931 being sought as increased revenues in the Permanent Rate Petition is needed to make up for reductions in revenue that the Company attributes to declines in its ratepayers' consumption of water.

RESPONSE: As per page 6 of my permanent rate testimony, \$214,000 of the requested increase is due to not being able to achieve revenue levels previously authorized by the Commission.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to Hampton Data Requests—Set 2

Data Request Received: September 26, 2012
Request No.: Hampton 2-3

Date of Response: October 10, 2012
Witness: T. Dixon

REQUEST: **Schedule No. A; Page 1 of 1 (Permanent Rate Petition)**

Please indicate how much of the \$1,113,931 being sought as increased revenues in the Permanent Rate Petition is needed to increase the Company's return on equity from 9.75% to 10.25% as requested by the Company?

RESPONSE: An increase in the return on equity from 9.75% to 10.25% or 50 bps in the permanent rate petition provides \$77,360 of the proposed revenue requirement sought in this case. Refer to the calculation below.

| | |
|--------------------------------|------------------|
| Rate Base | \$22,320,609 |
| Change in Equity (0.5%*41.26%) | <u>.2063%</u> |
| Change in Operating Income | 46,047 |
| Conversion Factor | <u>1.68</u> |
| Change in Revenue Requested | <u>\$ 77,360</u> |

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to Hampton Data Requests—Set 3

Data Request Received: November 5, 2012
Request No.: Hampton 3-20

Date of Response: November 19, 2012
Witness: T. Dixon

REQUEST: Please indicate whether the 2013 WICA surcharge of 5.7688% that is the subject of the Company's October 31, 2012 filing are included in, or are in addition to the 18.3% increase in annual revenues that the Company is seeking in DW 12-085, and whether the 5.7688% WICA surcharge being sought is calculated on the basis of the revenue requirement as if the 18.3% increase had been granted.

RESPONSE: The proposed surcharge of 5.7688% includes an approved surcharge of 3.7269% as per DW 11-238 plus an incremental 2.0419% related to projects completed in 2012. Only the 2.0419% portion of the surcharge represents revenues incremental to the 18.3% request in DW 12-085. As per Mr. Dixon's direct testimony at page 29, the Company's proposal is to incorporate the incremental portion as a step increase in DW 12-085. The 5.7688% request is based on the last approved revenues in DW 08-098 and not the requested revenues in DW 12-085.