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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 28, 2012 - 10:00 a.m.
Concord, New Hampshire

NHPUC SEP13'12 PM 3:54

RE: DW 12-085
AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
Notice of Intent to File Rate Schedules.
(Hearing regarding temporary rates)

PRESENT: Commissioner Michael D. Harrington, Presiding
Commissioner Robert R. Scott

F. Anne Ross, General Counsel

Sandy Deno, Clerk

APPEARANCES: Reptg. Aquarion Water Co. of New Hampshire:
Patrick H. Taylor, Esq. (McLane, Graf...)

Reptg. the Town of Hampton, N.H.:
Mark S. Gearreald, Esq.

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Donna McFarland
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A. B. Thunberg, Esq.
Mark A. Naylor, Director/Gas & Water Div.
James Lenihan, Gas & Water Division
Jayson Laflamme, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

(SI-85-80) [...]

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EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Testimony of Troy M. Dixon regarding temporary rates, including testimony and schedules (05-14-12)	5
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3	Chart entitled "Aquarion Water Company of New Hampshire Average Residential Impacts for a 5/8" Metered Customer"	5

1 one point of administration. We have a presentation of a
2 panel in support of the Settlement Agreement that will
3 include Troy Dixon on behalf of the Company and Mark
4 Naylor on behalf of the Staff.

5 CMSR. HARRINGTON: If there's nothing
6 else, we'll just proceed with the panel.

7 MR. TAYLOR: The Company calls Troy
8 Dixon to the stand. While they're getting ready, I'd like
9 to mark some exhibits. And, you already have them before
10 you. Exhibit 1 is the prefiled Testimony of Troy Dixon
11 and the schedules supporting the Company's request for
12 temporary rates. Exhibit 2 is the Settlement Agreement
13 between the Company, Staff, and the Office of Consumer
14 Advocate. And, Exhibit 3 is a sheet showing the impact of
15 temporary rates as proposed in the Settlement Agreement on
16 the bill of an average residential customer of the
17 Company.

18 MS. THUNBERG: And, if I may just add,
19 there is an agreement among the parties for the marking
20 for identification of these exhibits.

21 CMSR. HARRINGTON: All right. Thank
22 you. The exhibits will be marked as stated.

23 (The documents, as described, were
24 herewith marked as **Exhibit 1**, **Exhibit 2**,

[WITNESS PANEL: Dixon~Naylor]

1 and **Exhibit 3**, respectively, for
2 identification.)
3 (Whereupon **Troy M. Dixon** and
4 **Mark A. Naylor** were duly sworn by the
5 Court Reporter.)

6 **TROY M. DIXON, SWORN**

7 **MARK A. NAYLOR, SWORN**

8 **DIRECT EXAMINATION**

9 BY MR. TAYLOR:

10 Q. Mr. Dixon, can you please state your name, employer,
11 and business address for the record?

12 A. (Dixon) My name is Troy Dixon. I'm employed by
13 Aquarion Water Company of Connecticut. And, the
14 business address is 600 Lindley Street, in Bridgeport,
15 Connecticut.

16 Q. What is your position with Aquarion and what are your
17 job responsibilities?

18 A. (Dixon) I am the Director of Rates and Regulation. I'm
19 responsible for the preparation and presentation of
20 rate case and other regulatory filings for each of
21 Aquarion's regulated water utilities.

22 Q. What was your role in preparing the Company's filing in
23 this case, particularly with respect to the temporary
24 rate filing?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 A. (Dixon) In general, I'm responsible for the overall
2 direction of the rate case filing. With respect to the
3 temporary rate filing, I have sponsored testimony and
4 exhibits.

5 MR. TAYLOR: Thank you, Mr. Dixon.

6 Marcia, would you like to?

7 BY MS. THUNBERG:

8 Q. Mr. Naylor, if I could just have you state your full
9 name and position for the record.

10 A. (Naylor) Yes. My name is Mark Naylor. And, I am the
11 Director of the Gas and Water Division here at the PUC.

12 Q. And, what do you consider to be your area of expertise?

13 A. (Naylor) I'm an accountant.

14 Q. And, do you perform work for the Commission within this
15 area of expertise?

16 A. (Naylor) Yes, I do.

17 Q. And, can you please briefly describe your involvement
18 with this docket?

19 A. (Naylor) I have reviewed the Company's filings, both
20 for its temporary rate request and its permanent rate
21 request, and its Annual Report for 2011, and other
22 materials that the Company has provided, including
23 discovery materials.

24 Q. And, you have -- have you specifically reviewed what's

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 been marked as "Exhibit 1", the "Prefiled Direct
2 Testimony of Troy Dixon"?

3 A. (Naylor) Yes, I have.

4 Q. And, you're familiar with that exhibit?

5 A. (Naylor) Yes, I am.

6 Q. And, Exhibit 2 is a Settlement Agreement. And, I'd
7 like to ask you if you participated in the drafting of
8 this Settlement Agreement?

9 A. (Naylor) Yes, I did.

10 Q. Are you familiar with the terms of it?

11 A. (Naylor) Yes, I am.

12 Q. And, do you have any changes or corrections to make to
13 this Settlement Agreement?

14 A. (Naylor) No.

15 BY MR. TAYLOR:

16 Q. Mr. Dixon, the filing marked as "Exhibit 1" contains
17 testimony bearing your name. Was this testimony
18 prepared by you or under your direction?

19 A. (Dixon) Yes, it was.

20 Q. Do you have any changes or corrections that you'd like
21 to make?

22 A. (Dixon) No, I do not.

23 Q. Is the testimony true and correct to the best of your
24 knowledge and belief?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

1 A. (Dixon) Yes.

2 Q. Mr. Dixon, could you please start by giving the
3 Commission a brief overview of the Company's request
4 for permanent rate relief in this docket?

5 A. (Dixon) On May 14th of 2012, Aquarion filed testimony,
6 exhibits, and amended tariff pages requesting an
7 overall increase in revenues of \$1,113,931. That
8 represents an 18.3 percent increase over pro forma
9 revenues for the test year ended December 31st, 2011.
10 That produces a total revenue requirement of
11 approximately \$7.2 million.

12 Q. As part of the May 14th filing, the Company also
13 requested temporary rate relief. Could you please
14 describe the level of the temporary rate relief
15 requested?

16 A. (Dixon) We requested a temporary increase to generate
17 an increase of \$732,078, or 12.03 percent. That's
18 roughly two-thirds of our permanent rate request.

19 Q. And, why is the Company seeking a temporary rate
20 increase?

21 A. (Dixon) Our current rates don't allow us to earn a
22 reasonable return on our investment in utility plant in
23 service that's currently serving our customers. The
24 return on equity established in our last case nearly

[WITNESS PANEL: Dixon~Naylor]

1 four years was 9.75 percent. For the test year ended
2 December 31st, 2011, our achieved return on equity was
3 3.86 percent. And, even more recently, for the 12
4 months ended July 31st, 2012, our achieved return was
5 down to 2.2 percent.

6 In addition, the impact of implementing
7 temporary rates will mitigate the impact of the
8 temporary rate reconciliation when permanent rates are
9 set.

10 Q. Now, what factors are contributing to the Company's
11 inability to achieve its authorized return on equity?

12 A. (Dixon) There are two main factors driving that
13 inability to earn a return. First, there's been a
14 steady increase in operating expenses, particularly
15 increases in property taxes by the communities that the
16 Company serves. And, secondly, the Company has seen a
17 continued downward trend in consumption on a per
18 customer basis.

19 Q. Thank you. Turning to the Settlement Agreement that's
20 been marked as Exhibit 2, are you familiar with the
21 Settlement Agreement?

22 A. (Dixon) Yes, I am.

23 Q. And, did you participate in the process that resulted
24 in the Settlement Agreement?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 A. (Dixon) I did.

2 Q. Is this Settlement the result of a compromise between
3 Aquarion, the Staff of the Public Utilities Commission,
4 and the Office of Consumer Advocate?

5 A. (Dixon) It is.

6 Q. Could you please walk the Commission through the terms
7 of the Agreement.

8 A. (Dixon) The Settlement presents an increase in overall
9 annual revenues of \$535,709, or 8.8 percent. That
10 8.8 percent increase will be achieved through an
11 increase of 9 percent to each of the customer classes,
12 as well as lesser increases to some of the
13 miscellaneous charges.

14 Q. And, that 9 percent increase, will that be implemented
15 on an across-the-board basis?

16 A. (Dixon) Yes, it will.

17 Q. And, approximately what percentage of the overall
18 requested increase in this case does the agreed upon
19 temporary increase in revenues represent?

20 A. (Dixon) It's roughly 48 percent of our permanent rate
21 request.

22 Q. Mr. Dixon, I would ask you to refer to Page 6 of
23 Exhibit 2. Can you please explain this schedule?

24 A. (Dixon) The exhibit is titled "Report of Proposed Rate

{DW 12-085} [Re: Temporary Rates] {08-28-12}

1 Changes - Temporary Rates - Settlement". It depicts
2 each of the customer classes, both the current and
3 proposed revenues. For each of the customer classes,
4 there's a 9 percent increase, whereas miscellaneous
5 charges increase at a lesser amount. As a result, the
6 overall increase is 8.8 percent.

7 Q. Mr. Dixon, could you -- if you could please refer to
8 Pages 7 through 15 of Exhibit 2. Could you please
9 explain these schedules for the Commission.

10 A. (Dixon) Page 7 is a summary of the billing analysis,
11 depicting revenue at present and proposed rates.
12 Again, for each of the classes, it shows the 9 percent
13 increase. It also depicts a breakdown for the seasonal
14 customers.

15 In terms of Pages 8 through 14, the
16 schedules depict even further breakout of the
17 individual classes of customer, showing the individual
18 meter sizes, as well as test year consumption amounts.
19 And, again, all depicting a 9 percent increase for each
20 of the customer classes.

21 Finally, Page 15 depicts a itemization
22 of some of the miscellaneous charges, which go up at an
23 amount totaling 2.38 percent.

24 Q. Mr. Dixon, you also have before you a document that's

[WITNESS PANEL: Dixon~Naylor]

1 been marked as "Exhibit 3". Can you explain what this
2 document is and what the information is shown -- or,
3 what information is shown on it?

4 A. (Dixon) Certainly. The document depicts the impact for
5 an average residential customer. It assumes that that
6 customer used 53,300 gallons of water on an annual
7 basis. The 53,300 gallons is based on what the average
8 customer used during our test year. Again, it shows a
9 9 percent increase for that average customer. And, it
10 breaks down to \$3.26 on a monthly basis, and \$9.78 on a
11 quarterly basis.

12 Q. And, just to clarify, when we're talking about the
13 "average residential customer", what is the size of the
14 meter?

15 A. (Dixon) It's a 5/8ths inch metered customer.

16 Q. Mr. Dixon, when will the temporary rates take effect
17 based upon this Settlement Agreement?

18 A. (Dixon) They would be effective for service rendered on
19 or after July 1st of 2012.

20 Q. And, can you briefly explain the significance of the
21 July 1st date?

22 A. (Dixon) We filed the rate case on May 14th of 2012,
23 requesting a July 1st effective date for the temporary
24 rates. In addition, on June 22nd, we provided notice

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 to our customers via a display ad in several of the
2 local newspapers. We also mailed copies of that
3 display ad to each of the towns, as well as the North
4 Hampton Water Commission. And, finally, during the
5 last week of June, we mailed notice of the proposed
6 increase to each of our customers.

7 Q. Mr. Dixon, assuming that the Commission were to approve
8 temporary rates as contemplated in the Settlement
9 Agreement, and further assuming that the Commission
10 were to ultimately approve permanent rates, how would
11 any difference between the two rates be reconciled?

12 A. (Dixon) Any difference between the temporary rates
13 approved and the permanent rates approved would be
14 reconciled back to July 1st of 2012, upon the
15 implementation of the new permanent rates.

16 Q. And, how would the reconciliation be implemented?

17 A. (Dixon) Once we calculate the difference between the
18 temporary rates and the permanent rates, we would
19 propose that those amounts would be reconciled to each
20 respective customer class based on meter size or
21 connection size.

22 Q. Thank you, Mr. Dixon. In your opinion, will the
23 Settlement Agreement as proposed result in just and
24 reasonable rates?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 A. (Dixon) Yes, it will.

2 Q. And, do you believe that this Settlement Agreement is
3 in the public interest?

4 A. (Dixon) I do.

5 MR. TAYLOR: Thank you. I have no
6 further questions.

7 MS. THUNBERG: And, I'm going to follow
8 up with this panel.

9 BY MS. THUNBERG:

10 Q. Mr. Dixon, I just have a follow-up question. On the
11 effective date of July 1, can you please explain how
12 this July 1 date will work with the billing cycle?
13 And, in your explanation, can you explain if there's --
14 if you have monthly billing customers or quarterly
15 billed customers?

16 A. (Dixon) We have mostly quarterly billed customers. So,
17 any amounts that are -- any shortfall between them --
18 I'm sorry -- any shortfall or surplus between the
19 temporary and the permanent rates for that period would
20 be calculated at the time of the permanent rates. And,
21 then, we would either charge that shortfall or surplus
22 back to the customers at that point via some sort of
23 surcharge mechanism.

24 Q. So, is it fair to say that the July 1st date was picked

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[WITNESS PANEL: Dixon~Naylor]

1 because it was at the beginning of either a quarterly
2 or monthly billing cycle?

3 A. (Dixon) Yes. That is correct.

4 Q. Okay. Thank you. Mr. Naylor, do you have an opinion
5 as to why -- whether the Company needs a rate increase
6 at this time?

7 A. (Naylor) Yes. It does appear that a rate increase will
8 be warranted, pending, of course, a full evaluation of
9 the Company's filing. Just a brief review of the
10 Company's permanent case reveals that, for example, the
11 Company has additional plant investment in the four
12 year period ending December of 2011 of about
13 \$4.45 million in gross utility plant. It's property
14 taxes have increased about 18 percent from 2009 to
15 2011. It's operation and maintenance expenses in
16 aggregate have increased, roughly from 2008 to 2011, by
17 about \$643,000, or about 27 percent. Obviously, we
18 need to review the reasons for these increases in O&M,
19 and review the property tax bills, and look at the
20 utility plant that's been invested.

21 But these things indicate that, to me,
22 that it appears the Company will -- will require a rate
23 increase out of this case in order to have an
24 opportunity to earn its cost of capital.

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 Q. Thank you. You heard in testimony this morning
2 characterizing the Settlement Agreement or the
3 Agreement on Temporary Rates as a "compromise". Do you
4 have an opinion on that?

5 A. (Naylor) Yes. I agree with that characterization. It
6 is a compromise.

7 Q. And, you've heard Mr. Dixon state what the agreed to
8 revenue requirement is. But do you have any comments
9 on the revenue requirement and why it's appropriate?

10 A. (Naylor) Well, again, it's a compromise, based on what
11 the parties agreed, in looking at not only the level of
12 the permanent rate requested, but a preliminary review
13 of some of the Company's financial information from its
14 test period. This is an increase of a little over half
15 a million dollars in revenues. As Mr. Dixon indicated,
16 it's about 48 percent of their permanent rate request.
17 So, we felt it was a reasonable compromise. It will
18 give the Company some rate relief on a temporary basis.
19 And, if there is a larger permanent increase warranted,
20 it will help to provide some mitigation of rate shock
21 to customers at the conclusion of the case.

22 Q. Mr. Dixon, I have a brief question for you. In the
23 Settlement Agreement, on Page 6, is the "Report of
24 Proposed Rate Change". And, you had touched upon that

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 there were miscellaneous charges that weren't being
2 increased by 9 percent. Do you recall that testimony?

3 A. (Dixon) I do.

4 Q. Can you please explain what are the "miscellaneous
5 charges"?

6 A. (Dixon) The miscellaneous charges are further laid out
7 on Page 15. And, the bulk of those relates to antenna
8 lease income, which are -- those amounts are based on
9 contractual agreements. The portion of the
10 miscellaneous charges that is going up relates to the
11 late fees, and assumes that, as overall revenues go up,
12 the amount of late fees will go up the same proportion.

13 Q. Okay. And, would you agree that this miscellaneous
14 increase only going up 2.38 percent is the reason why
15 we don't see this 8.8 revenue increase being a mirror
16 increase to customers as 8.8?

17 A. (Dixon) That is correct.

18 Q. Okay. Mr. Naylor, do you have any concern that, under
19 temporary rates, that Aquarion will be over earning?

20 A. (Naylor) No, I don't.

21 Q. And, could you please explain why Staff is agreeing to
22 the July 1st effective date?

23 A. (Naylor) Well, we believe that sufficient notice has
24 been provided to customers prior to that date. That is

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 something that's consistent with the Commission's
2 practice in the recent past. That, if customers have
3 received adequate notice of the proposal prior to the
4 effective date, then that is a reasonable date at which
5 to establish temporary rates.

6 Q. And, I believe you may have alluded to the answer to my
7 next question. I wanted to get in the record what are
8 some of the benefits from Staff's perspective of
9 allowing temporary rates, if you could please explain?

10 A. (Naylor) Yes, I touched on it a little bit. In a case
11 such as this, where the Company is receiving an
12 increase for temporary rates that's roughly half of
13 what their permanent request is, and without
14 prejudging, of course, what the final permanent
15 increase might be, it does permit some gradualism to a
16 potential increase to customers, and will help to
17 mitigate the rate shock of a larger increase. And,
18 consistent with the Commission's obligation to balance
19 the interests between utilities and the customers that
20 are served, it does give the Company some rate relief
21 in the interim period. So, that is, I'd say, two of
22 the more important factors in agreeing to a temporary
23 rate increase while the permanent rate request is
24 reviewed.

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 Q. Are you familiar with RSA 378:29's adjustment and
2 reconciliation of permanent and temporary rates?

3 A. (Naylor) Yes, I am.

4 Q. And, can you please describe what usually happens in
5 reconciliation rate cases?

6 A. (Naylor) The permanent rate finally determined by the
7 Commission will be compared with the temporary rates
8 approved. The difference will be either refunded to
9 customers or surcharged to customers, as the case may
10 be, for the period of time that temporary rates were in
11 effect.

12 Q. In the event that there is a rate design change, does
13 that complicate reconciliation of temporary and
14 permanent rates?

15 A. (Naylor) It doesn't really complicate it. You simply
16 have to do the reconciliation for each customer class
17 separately, such that you reflect the rate design
18 change that is reflected in the permanent rate decision
19 of the Commission. So, it's a couple of additional
20 steps, but I don't think it's a complicating factor at
21 all.

22 Q. Okay. Thank you. In the event that permanent rates
23 are lower than temporary rates, is there a problem with
24 making customers whole?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 A. (Naylor) No. There's no problem with that. If that
2 does happen in the case, then the Company would be
3 requested to refund the difference back to customers in
4 a manner that the Commission would determine in its
5 final order.

6 Q. Do you have any opinion on the likelihood of a
7 permanent rate being lower than the temporary rate that
8 we're recommending the Commission approve?

9 A. (Naylor) Well, it doesn't look like it will be. But we
10 will have to make that determination after a full
11 review of the case.

12 Q. Okay. RSA 378:30 allows the Commission to require a
13 bond of a company in the event it awards temporary
14 rates. Do you have an opinion on whether that's
15 necessary in this proceeding?

16 A. (Naylor) No, I don't believe it is. I think the
17 Company is financially healthy, in terms of its balance
18 sheet, and certainly access to capital. So, I don't
19 think that's any concern for us at this time.

20 Q. Do you believe the proposed temporary rates are in the
21 public interest?

22 A. (Naylor) Yes, I do.

23 Q. And, do you have an opinion as to whether they are just
24 and reasonable?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 A. (Naylor) I believe that they are.

2 MS. THUNBERG: It looks like both Staff
3 and counsel for Aquarion are finished with our direct.

4 CMSR. HARRINGTON: Ms. Hollenberg, do
5 you have any questions?

6 MS. HOLLENBERG: I do. Thank you.

7 **CROSS-EXAMINATION**

8 BY MS. HOLLENBERG:

9 Q. Mr. Naylor, you just were asked a question about
10 whether or not rate design changes for permanent rate
11 purposes would complicate the recoupment done under RSA
12 378:29. Do you recall that?

13 A. (Naylor) I do.

14 Q. And, is it not -- is it correct that there are no
15 agreements at this time as far as whether or not rate
16 design changes made for purposes of permanent rates
17 will be applied to the recoupment calculation?

18 A. (Naylor) There are no agreements to that effect.

19 Q. So, it's possible that you wouldn't even factor in rate
20 design changes made for permanent rate purposes into
21 your recoupment calculation, is that correct?

22 A. (Naylor) I guess it's possible. Sure.

23 MS. HOLLENBERG: Okay. Thank you. No
24 other questions.

[WITNESS PANEL: Dixon~Naylor]

1 CMSR. HARRINGTON: The gentleman from
2 Hampton.

3 MR. GEARREALD: Thank you. Good
4 morning.

5 BY MR. GEARREALD:

6 Q. Mr. Dixon, you've introduced through your testimony,
7 Exhibit 1, which was the direct prefiled testimony in
8 support of temporary rates, is that correct?

9 A. (Dixon) Yes.

10 Q. I believe in your direct prefiled testimony, the dollar
11 figure, in terms of increased revenues that was being
12 sought, appearing on Page 4, was \$732,078, is that
13 right?

14 A. (Dixon) That is correct.

15 Q. That represented a figure -- a revenue increase of
16 12.03 percent at that time?

17 A. (Dixon) Yes.

18 Q. Actually, in the data requests that were submitted to
19 the Company and answered, I believe you were in charge
20 of the answers?

21 A. (Dixon) I was.

22 Q. Yes. And, I think that temporary revenue requirement
23 actually went down slightly, to \$731,936, is that
24 right?

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 A. (Dixon) I don't recall the dollar figure, but I recall
2 that it reduced to about 10.77 percent.

3 Q. In the --

4 MR. GEARREALD: May I approach the
5 witness?

6 CMSR. HARRINGTON: Sure.

7 BY MR. GEARREALD:

8 Q. Just to refresh your memory, I'm showing you Town Data
9 Request 1-1. It looks like the figure that was
10 originally 732 some thousand went down slightly. Can
11 you read the figure there?

12 A. (Dixon) This figure referenced is not related to any of
13 the adjustments that caused our request to go down.

14 Q. Correct.

15 A. (Dixon) This figure here is related to the actual rate
16 design, --

17 Q. Sure.

18 A. (Dixon) -- designed to recoup our revenue requirement.

19 Q. Yes.

20 A. (Dixon) A slight difference between the rate design and
21 the amount of revenue sought.

22 Q. Sure. But, again, that related to the initial request
23 for 12.03 percent?

24 A. (Dixon) Yes. That is correct.

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 Q. Of that figure, and, again, what is that figure that
2 you had mentioned there?

3 A. (Dixon) The figure here is \$731,936.

4 Q. Thank you.

5 CMSR. HARRINGTON: Excuse me. Could you
6 identify the document that you're quoting from?

7 MR. GEARREALD: Yes. This would be
8 Town's Data Request 1-1, and the Company's response
9 through Mr. Dixon.

10 BY MR. GEARREALD:

11 Q. Now, Mr. Dixon, a question was asked in relation to
12 that data request, "how much of the 731,000" -- and
13 what's the rest?

14 A. (Dixon) \$936.

15 Q. -- "\$936, how much of that particular figure is
16 compromised of the revenue requirement being sought to
17 make up for decreased water consumption?" And, you
18 gave a figure there, did you not?

19 A. (Dixon) Yes. The response was "\$214,000".

20 Q. Thank you. That's one of the two major sources of the
21 revenue requirement being sought in the temporary rate
22 increase?

23 A. (Dixon) That is correct.

24 Q. A second source that you mention in response to

{DW 12-085} [Re: Temporary Rates] {08-28-12}

[WITNESS PANEL: Dixon~Naylor]

1 Attorney Taylor's questions was in connection with
2 operating expenses, is that correct?

3 A. (Dixon) Yes. That is correct.

4 Q. And, a portion of that you had testified related to tax
5 increases, correct?

6 A. (Dixon) Yes.

7 Q. Now, that had been asked of you in Town's Data Request
8 1-25. Do you see your answer there?

9 A. (Dixon) I do.

10 Q. And, of the, again, \$731,936, you had given an answer
11 as to how much of that figure was attributable in the
12 test year of 2011 to tax increases, is that right?

13 A. (Dixon) Yes. That is correct.

14 Q. How much of that, of the \$731,936, was attributable to
15 tax increases?

16 A. (Dixon) It's \$104,712, for an overall increase in those
17 taxes of 25.2 percent.

18 Q. And, of the \$731,936, the tax increases represent
19 approximately 15 percent, does that sound right to you?

20 A. (Dixon) That sounds correct, yes.

21 Q. And, of the \$731,936, in relation to the decreased
22 revenues due to water consumption, approximately
23 29 percent of that is -- it's approximately 29 percent
24 of the \$731,000?

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1 A. (Dixon) That appears correct, yes.

2 Q. So, the decreased consumption of water, the revenues
3 being sought to make up for that are about twice of the
4 amount of taxes?

5 A. (Dixon) For the test year period, yes.

6 Q. For the test year. Thank you. Mr. Dixon, the initial
7 figure or percentage being sought for a temporary rate
8 increase that appears on Page 4 of Exhibit 1
9 represented 12.03 percent, is that correct?

10 A. (Dixon) Yes, it is.

11 Q. And, in response to Staff data requests, which again
12 you were answering, I believe the Company lowered its
13 request for a temporary rate increase to 10.77 percent,
14 is that correct?

15 A. (Dixon) That is correct.

16 Q. And, again, that figure of 10.77 percent was overall
17 rate increase, an overall figure?

18 A. (Dixon) Yes.

19 Q. Yes. And, so, in today's hearing and under the
20 Settlement Agreement, the compromise figure being
21 presented is lower still, as reflected in Schedule 5A
22 to "8.8 percent", correct?

23 A. (Dixon) 8.8 percent overall, yes.

24 Q. So, comparing the figure being presented today for a

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1 temporary rate increase, to the figure that was
2 presented initially of "12.03 percent", represents a
3 reduction of approximately 25 percent, correct, in the
4 rate -- temporary rate increase being sought?

5 A. (Dixon) Yes.

6 Q. Thank you. Mr. Naylor, good morning.

7 A. (Naylor) Good morning.

8 Q. I believe you stated this already, Mr. Naylor, but the
9 settlement being recommended of temporary rates being
10 put forth today by Staff and by the Consumer Advocate
11 does not foreclose in any way an evaluation of the rate
12 of return being sought permanently, does it?

13 A. (Naylor) It does not.

14 Q. It does not foreclose, does it, the issue of evaluating
15 who should bear the burden ultimately of the savings
16 due to water conservation that caused a decrease in
17 revenue to the Company?

18 A. (Naylor) It does not.

19 Q. This Settlement does not foreclose in any way an
20 evaluation of whether the WICA charge is accomplishing
21 the purposes for which it was put in place as a pilot
22 program, does it?

23 A. (Naylor) It does not.

24 Q. And, again, I think you've already stated that it is

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1 possible, through evaluation of the rate design, that
2 the permanent rate could be less than the temporary
3 rate?

4 A. (Naylor) It is possible.

5 Q. At which point, in that event, there would be a
6 reconciliation to the positive for the customers,
7 correct?

8 A. (Naylor) That's correct.

9 MR. GEARREALD: That's all the questions
10 I have. Thank you.

11 CMSR. HARRINGTON: Thank you.
12 Commissioner Scott.

13 CMSR. SCOTT: Good morning.

14 WITNESS NAYLOR: Good morning.

15 BY CMSR. SCOTT:

16 Q. I'd like to explore a little bit more for my
17 edification the discussion on the decrease in water
18 consumption. What is that due to? It is implied that
19 it's due to water conservation. Is that the case?

20 A. (Dixon) I think it's a combination of things. It's
21 just a general conservation ethic that exists today
22 that conservation is the right thing to do. It's -- a
23 portion is related to just the prevalence of
24 water-saving toilets, appliances, and the like. And,

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1 then, there's also going to be some portion of it
2 that's related to the economy.

3 Q. Do you, moving -- do you project water conservation and
4 water reductions like that? Do you have like a
5 long-term plan where you look at that?

6 A. (Dixon) We've seen the trend over at least our period
7 of ownership of the company, since 2002. We've seen
8 similar trends in our Connecticut operation, which
9 experiences, you know, roughly 1 percent decline per
10 year as a result of these behavioral changes.

11 Q. And, I assume any losses in the pipes and that type of
12 thing, that's considered as part of that also?

13 A. (Dixon) It's looking purely at the amount of water
14 people are using. So, this is whatever is getting
15 billed to those customers.

16 Q. Okay. So, it would be what's going through the meter?

17 A. (Dixon) Yes.

18 Q. Thank you. All right. Okay. And, similarly, I guess
19 we discussed this already. So, you do have some kind
20 of a long-term plan where you look at, in addition to
21 water conservation, you look at your maintenance and
22 requirements, that type of thing? I assume you have
23 some kind of planning horizon you look at for major
24 overhauls?

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1 A. (Dixon) We generally do a five year business plan each
2 year.

3 Q. Thank you. And, obviously, the Water Infrastructure
4 and Conservation Adjustment is not part of this
5 temporary rate increase. I was just curious, without
6 that, would you be -- I assume you'd be looking for a
7 larger increase, is that a fair assumption?

8 A. (Dixon) Yes. Right now, the WICA surcharge is roughly
9 3.7 percent. That would have been added on to our
10 initial request of 18.3. So, yes. The request would
11 have been in excess of 20 percent.

12 Q. Okay. And, regarding your antenna leases, can you
13 explain that to me a little bit more, so I can
14 understand where it's coming from?

15 A. (Dixon) When we enter into a lease with any of the
16 telecommunications companies, it's generally for a
17 certain duration. It could be five years, ten years.
18 But, usually, within those contracts, there's an
19 escalation, which increases the amount we collect for
20 inflation factors. So, one of the pro forma
21 adjustments that's both in the temporary rate request,
22 as well as the permanent rate request, is projecting
23 those increases in as a pro forma adjustment. So, that
24 lessens the burden on the rest of the customers.

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1 Q. So, are the antennas physically on like water towers,
2 that type of structure?

3 A. (Dixon) Yes.

4 CMSR. SCOTT: Thank you. That's all I
5 have.

6 CMSR. HARRINGTON: Good morning. Just a
7 couple of quick questions.

8 BY CMSR. HARRINGTON:

9 Q. Mr. Dixon, would regard to kind of a follow-up to what
10 Commissioner Scott was talking about, you're talking
11 about a continuing decrease in the use of consumption
12 of water. And, that at least partially begets us a
13 higher rate for the water, which is going to make
14 people more cognizant of the fact they're paying more
15 for water, which is going to tend to have more pressure
16 to reduce the water. What, if anything, can we do to
17 address that spiral, where you see decreased uses
18 increasing rates, which result in more decrease of
19 usage, which, on and on?

20 A. (Dixon) Yes. I think, in general, we all agree that
21 conservation is a good thing to promote, and we're
22 happy to do that. I don't necessarily think that rate
23 increases are the key drivers for conservation taking
24 hold. I think the key ones, as we've said, are just

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1 general conservation ethic, as well as sort of the
2 appliances out there, that every time you replace a
3 toilet, it's using, you know, 40 percent less water. I
4 think those are sort of the main drivers behind this.

5 One of the things that we're trying to
6 promote at Aquarion is really communicating to our
7 customers that what they pay for is really a service,
8 not necessarily for a certain quantity of water. You
9 know, we're providing the availability of water, you
10 know, 24 hours a day, seven days a week. So that, when
11 you turn on your faucet, it's there; when you flush
12 your toilet, the water is there. With that, there's a
13 certain amount of investment required, capital costs.
14 A lot of fixed costs in the business that are really
15 not going to change as customers' consumption habits
16 decrease. You know, we have to continue to provide
17 that service 24 hours a day at that same level of cost.

18 So, whereas we may not have a real
19 solution to the problem, you know, we're going to be
20 happy to talk to Staff and the OCA and the Town of
21 Hampton during this permanent process, to see if
22 there's, you know, things we can do to help mitigate
23 the net impact.

24 Q. I guess what my question is directed at was we've seen

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1 a lot of water companies where they seem to be chasing
2 themselves almost. Where they come in and they'll say
3 something like "Okay, you had property taxes go up, you
4 had consumption of water go down, so that's going to
5 push your costs up higher." There's some letters on
6 the record here that have come in where people have
7 complained about the increase in water. There's going
8 to be more awareness of costs, especially with a close
9 to 20 percent increase that you're requesting, and that
10 will result in some people being more cognizant of the
11 water they use.

12 A. (Dixon) Uh-huh.

13 Q. And, I think, admittedly, maybe it's the water-saving
14 toilets and appliances. But, as the price starts to go
15 up, they'll just be turning off the tap a little bit
16 more, watering their lawn a little bit less, which only
17 makes the situation a little bit worse. So, I hope,
18 long term, I was just kind of hoping that the Company
19 is looking at this from more of a point of view of
20 looking to the future, and not just, "okay, we'll fix
21 our revenues this year, and then, basically, a year or
22 two from now, when the property taxes go up again,
23 which they almost inevitably seem to do everywhere, and
24 the consumption goes down, and our fixed costs go up,

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1 that we would be requesting another 20 percent rate."
2 That's not tenable for a long time. It doesn't sound
3 like much now. But, if you put two or three 20 percent
4 rates together, and, boy, you're talking a huge change
5 in people's use of water habits.

6 A. (Dixon) I agree. We've seen this kind of trend, like I
7 said before, in our Connecticut operation as well.
8 And, you know, we don't necessarily have a silver
9 bullet right now in terms of a solution. But we're
10 happy to, you know, listen to any ideas people have in
11 order to head this off. Because we don't have the
12 answer right now, and I don't think we've seen it out
13 there yet.

14 Q. Well, just as long as you're aware of the problem and
15 make it a priority, I guess, more than anything else.

16 A. (Dixon) Okay.

17 CMSR. HARRINGTON: That's all I had.
18 You have anything else?

19 CMSR. SCOTT: No.

20 CMSR. HARRINGTON: I think the only
21 thing we have left then is to admit the exhibits as full
22 exhibits. Any objections to that?

23 MS. THUNBERG: We have redirect.

24 CMSR. HARRINGTON: Oh, I'm sorry. Sure.

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1 Yes. I didn't realize. Sorry about that.

2 MR. TAYLOR: I'd like to do some as
3 well.

4 CMSR. HARRINGTON: Okay.

5 **REDIRECT EXAMINATION**

6 BY MR. TAYLOR:

7 Q. Mr. Dixon, earlier Attorney Gearreald referred you to I
8 think it was Staff Data Request 1-19, and it referred
9 to a change in the -- a change in the requested overall
10 annual revenues to 10.77 percent?

11 A. (Dixon) Yes.

12 Q. Is it fair to say that the Company made that change
13 after discussions with the Staff at a technical
14 session?

15 A. (Dixon) Yes. We withdrew one of our pro forma
16 adjustments to rate base, as well as made certain other
17 corrections to the filing.

18 Q. Thank you. Attorney Gearreald also referred you to
19 certain Hampton data requests, regarding a portion of
20 the requested increase attributable to declining
21 consumption, and he also referred you to a data request
22 regarding an increase in property taxes. Is it,
23 regarding the property taxes, is it fair to say that
24 the property taxes are a percentage of a larger amount

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1 of expenses that have increased for the Company?

2 A. (Dixon) Yes.

3 MR. TAYLOR: Okay. That's all I have on
4 redirect.

5 CMSR. HARRINGTON: Ms. Thunberg.

6 MS. THUNBERG: Thank you. Mr. Dixon, I
7 have some follow-up questions to you regarding the
8 discussion about water consumption and sales.

9 BY MS. THUNBERG:

10 Q. Are you aware of whether decreased sales is a general
11 trend among water utilities?

12 A. (Dixon) I've seen several reports that indicate that it
13 is a nationwide trend.

14 Q. Do you know if that's expected to continue?

15 A. (Dixon) The numbers I've looked at have been for about
16 the last 15 years, and I don't see any signs of it
17 changing.

18 Q. How many customers does Aquarion serve?

19 A. (Dixon) In New Hampshire, I believe it's 9,100.

20 Q. And, in the schedules, either in your direct testimony
21 and the Settlement Agreement, I was looking for a
22 breakdown of the customers, number of customers who are
23 billed quarterly and monthly. Am I able to tell out of
24 these schedules?

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1 A. (Dixon) The only schedules that depict that level of
2 detail are in the billing analysis schedules. And, I
3 believe they would be Schedules 5D through 5H, where
4 there's a breakdown of the individual meter charges,
5 whether they are quarterly or monthly.

6 Q. You said "5G", as in "George"?

7 A. (Dixon) I'm sorry, 5D through 5G, I believe.

8 Q. Okay. Got it. Thank you.

9 A. (Dixon) Okay.

10 Q. Mr. Naylor, there was a brief mention of lost water.
11 And, I wanted to ask, does Staff feel that Aquarion --
12 or, what is Staff's opinion on whether Aquarion has a
13 lost water problem or not?

14 A. (Naylor) I haven't looked at that recently, and
15 certainly have not looked at it as part of this case,
16 as yet. I do recall that the Company has had water
17 loss detection efforts in the past. But it's something
18 that we will be looking at, as we usually do, in the
19 permanent rate phase of this docket.

20 MS. THUNBERG: Thank you. Staff has no
21 further redirect.

22 CMSR. HARRINGTON: Ms. Hollenberg?

23 MS. HOLLENBERG: Nothing. Thank you.

24 CMSR. HARRINGTON: Okay. Sounds like

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1 somebody turned up the microphones in here.

2 MR. GEARREALD: Thank you, Mr. Chairman.

3 **RECROSS-EXAMINATION**

4 BY MR. GEARREALD:

5 Q. Mr. Dixon, Attorney Taylor had asked you about taxes
6 being -- about one component of the --

7 CMSR. HARRINGTON: Excuse me. This is
8 sort of like a redirect of a recross. So, we don't
9 usually allow that.

10 MR. GEARREALD: Okay.

11 CMSR. HARRINGTON: So, I think, in this
12 case, we'll just stop it right here.

13 MR. GEARREALD: Pardon me.

14 CMSR. HARRINGTON: Okay?

15 MR. GEARREALD: That's fine. Thank you.

16 CMSR. HARRINGTON: Anything else we need
17 to deal with? Again, let's go over that thing. Was there
18 any objections to the exhibits being made permanent?

19 MS. HOLLENBERG: No thank you.

20 MS. THUNBERG: No objection.

21 MR. TAYLOR: No objection.

22 CMSR. HARRINGTON: And, is there -- I
23 see that the requested Settlement Agreement is retroactive
24 to July 1st. So, is there any target date for getting --

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1 that we should at least strive to get the order out on?

2 MR. TAYLOR: I mean, I would request as
3 soon as practicable by the Commission.

4 CMSR. HARRINGTON: Is there a key date
5 for billing purposes or anything like that? That's what
6 I'm trying to determine.

7 MR. TAYLOR: If I can confer with my
8 witness and see if that's the case?

9 WITNESS DIXON: October 1 would be the
10 preferred date. That way we would have two billing cycles
11 that were at the reduced temporary rate.

12 CMSR. HARRINGTON: So, no later than
13 October 1st. Okay. Anything else?

14 MS. HOLLENBERG: No thank you.

15 CMSR. HARRINGTON: Thank you very much.
16 We'll take this under advisement.

17 MR. TAYLOR: Shall we give closing
18 statements or --

19 CMSR. HARRINGTON: I guess, yes. I
20 don't have my list with me. So, apologies. Yes, please.
21 You can start. That's fine. Mr. Taylor.

22 MR. TAYLOR: Sure. Thank you. Aquarion
23 respectfully requests that the Commission approve the
24 Settlement Agreement as presented to it today. As

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1 demonstrated in the Company's filings, and I believe was
2 confirmed by the testimony of Mr. Dixon and Mr. Naylor,
3 Aquarion is under earning, relative to the return of
4 equity authorized by the Commission in the Company's last
5 general rate case. And, we believe there's a sufficient
6 record to support a temporary rate increase.

7 The Settlement Agreement that is before
8 the Commission today is the result of a compromise between
9 the Company, the Staff, and the Office of the Consumer
10 Advocate, and the Town of Hampton has not opposed it.
11 And, we believe that the rates set forth therein are
12 reasonable, and that the Settlement Agreement is in the
13 public interest.

14 The Company is most appreciative of the
15 efforts of the Staff, OCA, and the Town of Hampton leading
16 up to the Settlement Agreement. And, we look forward to
17 working with the Staff and the parties throughout the
18 remainder of the case. The Company also appreciates the
19 opportunity to have been heard today. And, I thank you.

20 CMSR. HARRINGTON: Ms. Thunberg.

21 MR. GEARREALD: Thank you, Mr. Chairman.

22 CMSR. HARRINGTON: The gentleman goes
23 next, okay.

24 MR. GEARREALD: As Attorney Taylor has

1 indicated, the Town of Hampton is not a signatory to this
2 proposed Settlement; on the other hand, we are not
3 opposing it at this time. It does represent, as
4 Mr. Naylor has indicated, a compromise being suggested on
5 the part of Staff and the OCA.

6 This is a compromise that does not
7 foreclose inquiry into major issues that are of concern to
8 the Town of Hampton and to others. Namely, the rate of
9 return being sought; the fact that customers are being
10 asked to bear the cost of savings they have achieved
11 through water conservation; and the third area of major
12 concern is whether WICA is, in fact, accomplishing its
13 purposes of decreasing rate shock and the frequency of
14 rate increases. All of these are areas of inquiry that
15 are open, and can and will be explored on a permanent
16 basis.

17 But, for today's purpose, the
18 8.8 percent overall rate for temporary purposes is
19 25 percent less than was initially sought by the Company.
20 And, for all those reasons, the Town of Hampton does not
21 object to this Settlement Agreement. Thank you.

22 MS. HOLLENBERG: Thank you. The Office
23 of Consumer Advocate supports the Settlement Agreement and
24 respectfully requests that you approve it.

1 CMSR. HARRINGTON: Thank you.

2 MS. THUNBERG: Thank you, Commissioners
3 and General Counsel, for your time today. Staff
4 respectfully requests that Commission approve the
5 temporary rates proposed for Aquarion. Staff believes
6 that the record demonstrates that it is in the public
7 interest for the Commission to fix and determine such
8 temporary rates, and that the temporary rates proposed --
9 or, the customer rates, based on the temporary revenue
10 requirement increase, will be just and reasonable. Thank
11 you again. And, we ask that you approve the Settlement
12 Agreement. Thank you.

13 CMSR. HARRINGTON: Okay. Now, I think
14 we'll take it under advisement. Thank you.

15 **(Whereupon the hearing ended at 10:50**
16 **a.m.)**

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