

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DW 14-____

2015 WATER INFRASTRUCTURE
AND CONSERVATION ADJUSTMENT FILING

DIRECT TESTIMONY OF

TROY M. DIXON

OCTOBER 29, 2014

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
7 CT”) 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 CT in February 2003 as a Regulatory Compliance
15 Specialist. During my employment, I have been appointed to positions of
16 increasing responsibility, and in September 2009 I was promoted to my current
17 position. As Director of Rates and Regulation, I am responsible for the
18 preparation and presentation of rate case filings for Aquarion CT and its regulated
19 water affiliates, including Aquarion Water Company of New Hampshire, Inc.
20 (“Aquarion NH” or the “Company”).

21

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

1 A. I have provided live testimony before the PUC and submitted written pre-filed
2 testimony in Dockets DW 08-098 and DW 12-085, the Company's most recent
3 rate cases, and in Dockets DW 10-293 , DW 11-238, 12-325 and 13-314, the
4 Company's previous Water Infrastructure and Conservation Adjustment
5 ("WICA") filings.

6
7 **Q. What is the purpose of your testimony?**

8 A. My testimony addresses the proposed surcharge related to the revenue
9 requirement for completed WICA eligible projects placed in service from October
10 1, 2013 to September 30, 2014 as well as the implementation of the credit
11 resulting from changes to certain Federal tax regulations that was addressed in
12 Docket DW 14-075.

13
14 **Q. Please summarize the basis for the Company's WICA surcharge filing in this**
15 **case.**

16 A. Pursuant to the Commission's Order No. 25,019 dated September 25, 2009 in
17 Docket DW 08-098 and Order No. 25,539 dated June 28, 2013 in DW 12-085, the
18 Company is authorized to apply for approval of a WICA surcharge adjustment on
19 an annual basis to collect the revenue requirement associated with used and useful
20 WICA-eligible infrastructure improvement projects completed in the preceding
21 twelve months ending September 30. Specifically, Section II.H.3 of the
22 settlement agreement approved by the Commission in Order No. 25,019 provides:

23 The Company agrees to file the final project costs, supporting
24 documentation and proposed WICA adjustment for completed projects
25 previously determined to be WICA eligible. . . . No project shall be

1 included for recovery in the WICA unless the project is used and useful in
2 providing service to customers or will be used and useful by the effective
3 date of the WICA.
4

5
6 Attachment CM-1 to Carl McMorran's direct testimony identifies Aquarion NH's
7 completed 2014 WICA projects and their respective costs. The resultant
8 surcharge and components are derived in Attachment TD-1 to my testimony.
9 This surcharge incorporates depreciation, property tax expense, income tax
10 expense, and associated rate of return on completed projects, as contemplated by
11 the approved WICA mechanism.
12

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

14 A. The 2014 projects listed in Attachment CM-1 produce a surcharge of 2.5386% to
15 be applied to customers' existing water service billings. This is an increase of
16 1.1729% in addition to the 1.3657% surcharge previously allowed by Order No.
17 25,668. The surcharge is applicable to all classes of customers. The WICA
18 mechanism approved by the Commission has an annual cap of 5% and an
19 aggregate cap of 7.5% between rate cases, neither of which is exceeded by the
20 surcharge being proposed here. This is the Company's second WICA filing since
21 its last general rate case. Consistent with the settlement in Docket DW 08-098
22 and as modified in Docket DW 12-325, the Company is seeking authorization to
23 implement this surcharge on a service-rendered basis effective as of January 1,
24 2015.
25
26

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

2 A. Attachment TD-1 consists of three pages detailing the calculations of the
3 proposed 2.5386% surcharge.

4 **Page One – Summary Calculation:** This schedule multiplies the September 30,
5 2014 used and useful WICA project eligible investment totals, net of the first
6 year’s accumulated depreciation, by the overall rate of return authorized by the
7 Commission in Docket DW 12-325. Additions to this amount are made to
8 account for (1) an income tax gross-up on the equity portion of the eligible rate
9 base investment; (2) depreciation expense; and (3) property taxes reflecting nine
10 months of expense for utility plant additions placed in service between October 1,
11 2013 and September 30, 2014, and twelve months of expense for those items
12 placed in service and recognized as part of Dockets DW 13-314. These
13 components derive a total annual revenue requirement of \$176,177 associated
14 with the WICA projects since the Company’s last general rate case. To determine
15 the WICA surcharge necessary to obtain this level of revenue, the amount is
16 divided by the last authorized water service revenues (i.e., gross revenues net of
17 miscellaneous charges) to arrive at a WICA surcharge of 2.5386%.

18 **Page Two – Calculation by Project:** This page shows the calculation of the
19 surcharge on an asset class basis.

20 **Page Three – Detailed Support:** This page identifies additional detail used in the
21 derivation of property taxes and depreciation and includes (1) PUC account
22 numbers and depreciation rates, (2) project towns and respective property tax mil

1 rates, (3) total and eligible¹ capital dollars, and (4) the associated total and eligible
2 retirements that decrease the property tax and depreciation calculations.
3 Depreciation expense is calculated by reducing the eligible project costs by the
4 amount of eligible retirements and multiplying the resultant figure by the
5 Commission-approved depreciation rates. Property tax is calculated similarly –
6 eligible project costs less retirements and accumulated depreciation multiplied by
7 the most recent mil rate for the respective town. Property tax expense recognized
8 as part of Docket DW 13-314 has been updated to reflect a full 12 months of
9 expense as well as the most recent mil rates. Also, based on the response to Data
10 Request Staff 3-2 in DW 13-314, the Company has added an accumulated
11 depreciation column to page 3 to calculate the return on investment, income tax
12 expense and property tax expense. For the requested property tax amounts
13 pertaining to projects included in this filing, the figure is then divided by twelve
14 and multiplied by nine to reflect the fact that the Company will only incur
15 property tax expense for the last nine months of the 2015 surcharge period.
16 Finally, all information on page three is shown on a project by project basis and
17 supports the figures on pages one and two.

18

19 **Q. Please explain why the completed service investments on Attachment CM-1**
20 **are not included on Attachment TD-1 for the surcharge calculation.**

21 A. As per the order in DW 12-235, services need to exceed \$50,000 in annual capital
22 expenditures before being eligible for WICA surcharge recovery. Referring to

¹ Eligible capital costs exclude the first \$50,000 of hydrants, services and valves pursuant to the approved settlement in DW 12-235. The reduction of \$50,000 is made proportionately to the pool of projects. Retirement values are also reduced accordingly.

1 Attachment CM-1, the cost for the above referenced capital costs did not surpass
2 the \$50,000 threshold. Accordingly they have not been included on Attachment
3 TD-1.

4

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

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

8

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

11 A. Yes, the Company will provide Staff with the appropriate supporting invoices and
12 system documentation in order to fully support the project totals.

13

14 **Q. If the Commission approves the Company's filing in this proceeding, will
15 customers see any other impacts on their bills beginning on the January 1
16 effective date of the proposed WICA?**

17 A. Yes. In its Order No. 25,692 in DW 14-075, the Commission approved the
18 Company's proposal to credit customers over a three year period for certain tax
19 benefits resulting from a change in tax regulations that allowed Aquarion NH to
20 expense certain investments that had previously been capitalized for Federal tax
21 purposes. In its Order No. 25,692, the Commission authorized Aquarion NH to
22 delay implementing the credit on customers' bills until January 1 in order to avoid
23 having rates move up and down several times over a short period of time. With

1 the implementation of the credit to customers authorized in Order No. 25,692
2 effective January 1, 2015, Customers will see a WICA surcharge of 2.5386%, but
3 at the same time they will also see a credit in the amount of 4%², resulting in a net
4 bill reduction of 1.4614% relative to what they otherwise would have paid.

5

6 **Q. What is the impact to the average residential customers?**

7 A. The typical residential customer using 53,300 gallons of water per year currently
8 pays \$127.60 quarterly under existing rates. A WICA surcharge of 2.5386%
9 along with the credit of 4% would result in a decreased cost of \$1.86 per quarter
10 for such a customer, or \$0.62 per month.

11

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

13 A. Yes.

² Subject to a compliance filing in DW 14-075.