



STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

RE: AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DOCKET NO. DW 16-123

DIRECT TESTIMONY OF

FREDERICK W. WELCH

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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 Petition for Monthly Billing in this Docket No. DW 16-123. The Town of
23 Hampton has approximately 76% of the residential consumers served by
24 Aquarion and approximately 55% of the public fire hydrants for which
25 Aquarion makes water available.

26 Q. What particular relevant aspects of your employment history would you like
27 to bring to the Commission's attention in connection with this testimony?

28 A. My career has been in the field of municipal management, starting in 1962 with
29 the Town of Wellesley, Massachusetts, and continuing through today as Town

1 Manager for the Town of Hampton, New Hampshire. Along the way, I have
2 been the Town Administrator or Manager for the New Hampshire Towns of
3 Ashland (1983-1985), New London (1985-1991) Belmont (1991-1997),
4 Pittsfield (1997-2002), Seabrook (2002-2007), and Hampton, New Hampshire.
5 For the Town of Wellesley, Massachusetts, for whom I worked from 1962 to
6 1988, I was its Supervisor of Customer Service. This job entailed management
7 of billing and collection of \$15 million in utility revenues for the municipal
8 water, electric and sewer departments that serviced 25,500 municipal utility
9 customers.

10 **Q. What are the major concerns the Town has with respect to Docket No. DW**
11 **16-123?**

12 **A.** The Town of Hampton Board of Selectmen has directed that the Petition for
13 Monthly Billing be opposed in the Town's behalf for a number of reasons.
14 Among these are the following: Going from quarterly billing to monthly
15 billing will entail significant increased costs that the Company is only willing to
16 absorb until the next rate case, at which time it will be seeking to raise its
17 revenue requirement to cover these costs. Going from in advance to in arrears
18 billing will also generate annually an increase in the needed working capital
19 allowance, which the Company is seeking to defer until the next general rate
20 case, at which time it will seek to recover the accumulated increase over an
21 amortized period of time through an amount that will be "embedded into the
22 revenue requirement." Details of these increases are set forth in my responses to

1 further questions below, as derived from discovery in this matter. A rate
2 increase, even if delayed in its imposition until the next rate case, will be certain
3 to follow as a consequence of the Commission's allowing these billing changes
4 as requested. The Town of Hampton opposes the allowance of these changes
5 because, for the reasons that will be set forth hereinafter, they are for the
6 Company's internal benefit and not the customers' and customers should not
7 have to pay for that. The various benefits to customers that the Company is
8 claiming will flow from allowing these billing charges are either illusory, or can
9 be brought about without implementing these billing changes. In particular, as
10 will be explained below, the proposed change to billing of public fire from in
11 advance to in arrears is totally unnecessary, generates the majority of the net
12 working capital increase that the Company is seeking to defer, and is harmful to
13 municipal budgeting.

14 In sum, the public good will be poorly served if the Company's proposed billing
15 changes are allowed. They will inevitably lead to rate increases. The Company
16 has enjoyed a total of 69.74% in rate increases in the last 10 years. See History
17 of Water Company Rate Increases attached hereto as Exhibit A. Acceptances
18 by customers of another inevitable rate hike in the guise of funding the billing
19 changes proposed by the Company would represent a self-imposed wound.

20 **Q. What are the costs entailed in the billing changes sought by Aquarion, that**
21 **the Town of Hampton objects to customers being forced to pay for?**

1 A. Discovery from the Company has revealed that the Company expects to incur an
2 increase in costs of approximately \$47,800 annually as a result of the billing
3 charges it seeks to have approved. \$47,000 of this figure is attributable to
4 increases in postage. See the Company's Response to Hampton 1-1 (Exhibit B
5 attached hereto). Another \$800 in costs would be attributable to the Company's
6 share of costs incurred at its parent's Connecticut subsidiary for "information
7 technology costs and capital expenditures relating to SAP software systems and
8 licenses". Response to Hampton 2-1 (Exhibit C attached hereto). Attorney
9 Marcia Brown's March 28, 2016 letter for Aquarion in response to the Town's
10 Statement of Positions in Opposition hinted that the increases in operating
11 expenses would be entirely absorbed by the Company. However, discovery
12 since that letter has clarified the Company's position is instead that it will only
13 be absorbing these increases in postage and bill processing costs until the
14 Company's next general rate case, at which time they will become embedded
15 into the overall revenue requirement that is borne by all customers. In other
16 words, a rate increase will occur at that time from incurring these additional
17 costs.

18 **Q. What has discovery of the Company revealed about the so called variances**
19 **in the working capital allowance that the Company seeks to "defer"**
20 **recovery of until the next general rate case, and why does the Town oppose**
21 **such a recovery?**

1 A. In its Petition of Monthly Billing filed on January 25, 2016, the Company
2 claimed (on page 6) that a net increase in its needed working capital allowance
3 by 770 percentage points would occur from the billing changes it is seeking the
4 Commission's approval to implement. The dollar value of that resulting net
5 increase was quantified in the Petition (on page 7) as \$23,169. The Town has
6 learned that this \$23,169 amount of working capital variance, for which a
7 deferral is sought until the next rate case, would be an annual deferral until the
8 next general rate proceeding, so that the amount deferred would really amount
9 to approximately \$69,507 (3 years x \$23,169.) Company's Response to
10 Hampton 1-4 (Exhibit D attached hereto). This net increase in the working
11 capital allowance is due to the difference in funding operating costs and the
12 frequency with which revenues are collected. Company's Response to Hampton
13 3-8. (Exhibit E attached hereto.)

14 Since then, the Company has revised the annual dollar figure down to \$22,500.
15 See Company's Response to Staff 2-2 (Exhibit F attached hereto). This revision
16 is based upon adjustments in the working capital decrease from 113 basis points
17 to 109 basis points and in the working capital increase from 883 basis points to
18 851 basis points, the new difference being 742 basis points. Company's
19 Response to Hampton Tech Session 1-1 (Exhibit G attached hereto). Each basis
20 point represents \$30.32. Company's Response to Hampton Tech Session 1-2
21 (Exhibit H attached hereto). Three years' worth of \$22,500 would thus generate
22 a deferral amounting to \$67,500.

1 Unlike postage costs, no absorption of this amount is being offered by the
2 Company for any period of time. Full recovery of the deferral amount is
3 expected by the Company at the time of the next rate case through "imbedding"
4 it into the rate requirement. Company's Response to Hampton 1-6 (Exhibit I
5 attached hereto). Aquarion has suggested that this amount could be amortized
6 over a period of time to lessen rate shock, using the same methodology that is
7 utilized for recovery of capital expenditures covered by the WICA surcharge.
8 Company's Responses to Hampton 1-4 (Exhibit D attached hereto). The Town
9 submits that the Commission's granting of this deferral would be tantamount to
10 granting a rate increase now even though its imposition would be deferred.
11 Just as Hampton opposes the recovery of WICA capital expenditures that are
12 amortized over a longer period of time, resulting in customers paying for the
13 same recovery many times over, so too does it now oppose this form of
14 amortization. Moreover, the annual increase in working capital allowance of
15 742 basis points would not disappear starting with the net general rate case
16 because the same differential in basis points would still go forward into the
17 future; it would just be embedded in the allowed rate increases.
18 The price that customers would have to pay for the requested change in billing is
19 not counterbalanced by the supposed benefits to the public. This is particularly
20 so with regard to public fire.

21 **Q. How much of the net increase in working capital allowance needed would be**
22 **attributable to the change in billing of public fire?**

1 A. The Company's Response to Hampton 3-12 (Exhibit J attached hereto)
2 attributed nearly 71% of the basis point change to the shifting of public fire
3 customers from in advance to in arrears. Subsequent to the Company's revision
4 of the working capital allowance variance from \$23,169 to \$22,500, Company
5 officials have quantified the proposed change for public fire customer as
6 representing \$18,283 out of the proposed \$22,500 annual deferral. Company's
7 Response to Hampton Technical Session 1-4 (Exhibit K attached hereto.) This
8 means the proposed change to billing of public fire charges now represents
9 about 81% of the proposed referral.

10 **Q. How is public fire currently billed and why does the Town of Hampton**
11 **oppose this proposed change from in advance to in arrears?**

12 A. Public fire charges essentially secure the availability of water by Aquarion to fire
13 hydrants in four municipal entities in New Hampshire so that they can fight fires
14 when they occur. These 4 entities are the Town of Hampton, the Town of
15 North Hampton, the Rye Beach Precinct, and the Jenness Beach Precinct. See
16 the Company's Response to Hampton 3-11 (Exhibit L attached hereto).
17 Hampton has within its area more than half of the public fire hydrants that
18 Aquarion owns [see Attachment A, Page 67 of 69, to the Company's Response
19 to Hampton 3-3, (Exhibit M attached hereto)], and as a result, pays more than
20 half of the Company's revenues for that service. Company's Response to
21 Hampton 3-11 (Exhibit L attached hereto).

1 These charges for public fire are not based upon volume of water used but rather
2 upon flat fees designed to cover the cost of the Company's having made water
3 available when it is needed. These changes have for years been billed twice per
4 year in six month intervals in advance, so that for Hampton, both bills fall well
5 within the budgeting cycle of the calendar year for which its service coincides.
6 This has enabled the Town to budget for and pay for the first six months' worth
7 of hydrant charges in a given year in January of that year, and to pay for the
8 second six months in July of that same year. The Company's Response to
9 Hampton 3-11 (Exhibit L attached hereto) shows how this current billing in
10 advance works.

11 Aqurion's proposed change in this billing from in advance to in arrears would
12 delay the billing and payment of the first six months of public fire service in a
13 given year until July of that year, and the second six months of public fire
14 service in a given year until sometime in January of the next year. For
15 Hampton, the significance of this is that about \$240,000 of bills for 2016 will be
16 left to pay in 2017. This has the potential to wreak havoc every year on the
17 Town's ability to pay its bills.

18 The Town must pay for its 2016 bills out of the operating budget for that year,
19 which is appropriated at the 2016 Town ballot session in March of 2016. By
20 statute (RSA 32:8) no payment can be made unless there is an appropriation for
21 that payment. The Town cannot pay for a given year's worth of expenses out of
22 the budget for a different year. If there is insufficient money left in the 2016

1 budget by the end of the calendar year to pay for the large bill for 2016 public
2 fire hydrant services, then the Town cannot pay that bill without seeking a
3 special appropriation from the next annual Town Meeting in March of 2017.

4 There are a number of uncertain expenses that can arise during the course of a
5 calendar year that make holding back \$240,000 to pay a hydrant bill problematic
6 at the end of a calendar year or in January of the next year. If, as in the
7 calendar year 2015, there are a series of major snowstorms early in the year, the
8 entire calendar year's worth of snow clearing budget can be wiped out and
9 exceeded with snow clearing expenses for storms occurring during the end of
10 the year months still left to cover. Hampton had to deal with just such a snow
11 clearing cost overrun in 2015 by stopping other planned expenditures in
12 September of 2015. A \$240,000 public fire bill coming at the end of the year
13 2015 would have only compounded the difficulty of ensuring that Town
14 Departments do not have to be shut down to guarantee that the 2015 Budget is
15 not over-expended, which cannot legally occur in the absence of extraordinary
16 measures under RSA 32:11.

17 The only real benefit that the Company puts forward to justify its proposed
18 change in billing for public fire charges is "to be consistent with Aquarion's
19 regulated operations in Connecticut and Massachusetts." Company's Response
20 to Hampton 1-8 (Exhibit N attached hereto). The Town of Hampton submits
21 that in determining the public good, this benefit to the Company from being able
22 to issue just 8 public fire bills in the same way it bills its other 9,000 customers

1 is far outweighed by a) the resulting generation of 81% of the working capital
2 variance (\$54,849 in over 3 years) that is being sought to be deferred and b) the
3 resulting difficulties that would be unnecessarily imposed on municipal entities
4 like Hampton that struggle to stay within their budgets at year's end. The
5 burden to Aquarion of keeping things as they are now and from generating 8
6 public fire bills in a different way is miniscule by comparison. These 8 bills
7 will still be issued at the same time intervals that Aquarion is proposing, just
8 covering different periods of time (6 months in advance instead of 6 months in
9 arrears) and could be issued manually if they cannot conveniently be
10 programmed to reflect the different periods of service covered.

11 **Q. Why does the Town not give much credence to the Company's claim that the**
12 **proposed conversion to monthly billing will provide for timely discovery of**
13 **leaks in the water system?**

14 A. Leaks in the water system may be attributed to other than customer controlled
15 equipment. The Company has so far put forward no statistical information that
16 would quantify the number of customer controlled leaks or their volume that are
17 occurring versus those that occur from Company owned infrastructure. Also,
18 the Company now has the ability to read customer's meters more often so it can
19 alert customers to increased water usage even without billing customers more
20 frequently. In fact, as revealed at the Technical Session on May 10, 2016, the
21 Company already has in place an internal program to investigate and address
22 usage by customers with higher than usual bills. See Company's Response to

1 Hampton Technical Session 1-5 (Exhibit O attached hereto). The Company's
2 assumption that customers, who are not trained in assessing whether their higher
3 bills are attributable to leaks and in detecting their source, will be equipped by
4 monthly billing to make a significant contribution to the Company's own,
5 already existing leak detection capability is a real stretch.

6 The Town submits that this claimed benefit is not what drives the Company to
7 seek this billing change, which instead appears to be prompted by its desire for
8 its own benefit, to make consistent its New Hampshire operations with those of
9 its Connecticut and Massachusetts subsidiaries.

10 **Q. How does the Town respond to the Company's contention that monthly**
11 **billing will reduce the volume of lost water in the water distribution system**
12 **and customer sewer lines?**

13 A. Again, the Company has so far put forward no statistical information that would
14 quantify the number of customer controlled leaks or their volume that are
15 occurring versus those that occur from Company owned infrastructure. Also,
16 the Company now has the ability to read customer's meters more often so it can
17 alert customers to increased water usage, even without billing customers more
18 frequently. It is not a foregone conclusion that more frequent billing will
19 necessarily cause customers to both a) determine that a higher bill is the result
20 of a leak in customer owned equipment as opposed to higher usage, and b)
21 respond by expending their own money to locate and repair a leak versus just
22 continuing to pay those the bills, which, after all, involves a tradeoff between

1 the cost of repair the customer would incur as against the higher amount of the
2 water bill that might be saved.

3 The Town submits that this claimed benefit is not what drives the Company to
4 seek this billing change, which instead appears to be prompted by its desire, for
5 its own benefit, to make consistent its New Hampshire operations with those of
6 its parent's Connecticut and Massachusetts subsidiaries.

7 **Q. Does the Town of Hampton acknowledge that reducing the volume of lost**
8 **water in the water distribution system and customer service lines helps**
9 **reduce costs to ratepayers, as Aquarion apparently contends?**

10 A. No. As became clear from Aquarion's own submissions during the Company's last
11 rate case (DW 12-085), decreases in water consumption due to conservation will
12 only lead, under the current rate structure, to the Company's seeking rate
13 increases and thus increased customer costs, to make up for the resulting lost
14 revenue in order to maintain and increase its rate of return and profit.

15 Again, the Town submits that this claimed benefit is not what drives the Company
16 to seek this billing change, which instead appears to be prompted by its desire, for
17 its own benefit, to make consistent its New Hampshire operations with those of its
18 parent's Connecticut and Massachusetts subsidiaries.

19 **Q. Does the Town of Hampton acknowledge that reducing costs is a benefit to**
20 **both the ratepayers and to the Company as Aquarion apparently contends?**

21 A. Not in the context of this case. As became clear from Aquarion's own submissions
22 during the Company's last rate case (DW 12-085), decreases in water
23 consumption due to conservation will only lead, under the current rate structure,

1 to the Company's seeking rate increases and thus increased customer costs, to
2 make up for the resulting lost revenue in order to maintain and increase its rate of
3 return and profit.

4 The changes in billing practice that the Company is seeking here will result in
5 increased postage and bill processing costs that will only be absorbed by the
6 Company until the next general rate case, at which time they will be passed along
7 to customers in the form of higher rates. Likewise, the cost of the resulting
8 increase in the working capital allowance will, as proposed, only be deferred
9 until the next general rate case, at which time it, too, would be imposed by
10 customers in the form of some sort of rate increase.

11 Again, the Town submits that this claimed benefit is not what drives the Company
12 to seek this billing change, which instead appears to be prompted by its desire, for
13 its own benefit, to make consistent its New Hampshire operations with those of its
14 parent's Connecticut and Massachusetts subsidiaries.

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

16 **A.** Yes, it does, but the Town reserves the right to supplement my testimony and to
17 present the testimony of others in behalf of its positions at the hearing of this
18 matter if I am unable to be present.

19