

**Kenneth E. Traum Qualifications**

My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of Consumer Advocate (OCA). My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301. I have been affiliated with the OCA for approximately twenty (20) years.

I received a B.S. in Mathematics from the University of New Hampshire in June, 1971, and an MBA from UNH in June, 1973. Upon graduation, I first worked as an accountant/auditor for a private contractor and then for the New Hampshire State Council on Aging, before going to the New Hampshire Public Utilities Commission (NHPUC) in February, 1976. At the NHPUC I started as an Accountant III, advanced to a PUC Examiner and later become Assistant Finance Director.

In my positions with the NHPUC, I was involved in all aspects of rate cases, assisted others in the preparation of testimony and presented direct testimony, conducted cross examination of witnesses, directed and participated in audits of utilities, and performed other duties as required. While employed at the NHPUC, I was a member of the NARUC Regulatory Studies Program at Michigan State.

In 1984, I left the NHPUC for Bay State Gas Company. With Bay State, I was involved in various aspects of financial analysis for Northern Utilities, Inc., Granite State Gas Transmission, Inc., and Bay State Gas Company, as well as regulatory activities with regard to Maine, New Hampshire, Massachusetts and the FERC.

In early 1986, I returned to New Hampshire to join the EnergyNorth companies, where my areas of responsibility included cash management, regulatory affairs, forecasting and other financial matters. While with EnergyNorth, I was a member of the New England Utility Rate Forum and the New England Gas Association. I also represented the utility, which is the largest natural gas utility in New Hampshire, over a two year period in the generic Commission docket (DE 86-208) which developed a methodology for conducting gas marginal cost studies.

In 1989 I joined the Office of Consumer Advocate with overall responsibility for advising the Consumer Advocate and its Advisory Board on all Financial, Accounting, Economic and Rate Design issues which arise in the course of utility ratemaking or cases concerning determinations of revenue responsibility, competition, mergers, acquisitions and supply/demand issues. I assist the Consumer Advocate and the OCA Advisory Board in formulating policy, and in implementation of that policy. In that role, I have testified before the NHPUC on many occasions. In early 2005, I was promoted to Assistant Consumer Advocate.

I am a member of the NASUCA (National Association of State Utility Consumer Advocates), Committees on Electricity and Gas. I was formerly the Chairman of the Board of Directors for Granite State Independent Living and served on GSILS's Finance Committee.

Qualifications of Stephen R. Eckberg

My name is Stephen R. Eckberg. I am employed as a Utility Analyst with the Office of Consumer Advocate (OCA), where I have worked since 2007. My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301.

I earned a B.S. in Meteorology from the State University of New York at Oswego in 1978, and an M.S. in Statistics from the University of Southern Maine in 1994.

After receiving my M.S., I was employed as an analyst in the Boston office of Hagler Bailly, Inc, a consulting firm working with regulated utilities to perform evaluations of energy efficiency and demand-side management programs.

From 2000 through 2003, I was employed at the NH Governor's Office of Energy and Community Services (now the Office of Energy and Planning) as the Director of the Weatherization Assistance Program. Most recently, I was employed at Belknap-Merrimack Community Action Agency as the Statewide Program Administrator of the NH Electric Assistance Program (EAP). In that capacity, I presented testimony before this Commission in dockets related to the design, implementation and management of the EAP. I have also testified before Committees of the New Hampshire Legislature on issues related to energy efficiency and low income electric assistance.

In my work for the OCA, I have testified jointly with Kenneth E. Traum, Assistant Consumer Advocate, in DG 08-048, Unitil Corporation

and Northern Utilities, Inc. Joint Petition for Approval of Stock Acquisition, in DW 08-070, Lakes Region Water Company Petition for Financing and Step Increases. I have also entered testimony in DW 08-073, Pennichuck Water Works, Inc. Petition for Rate Increase and in DW 08-065, Hampstead Area Water Company, Petition for Rate Increase.

I am a member of the American Statistical Association. I have attended regulatory training at New Mexico State University's Center for Public Utilities, and I participate in committees of the National Association of State Consumer Advocates (NASUCA) on behalf of the OCA.

**CAPITAL STRUCTURE FOR RATEMAKING PURPOSES**

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 4A  
Page 1 of 1

Line No.	Description	3/31/2008	Adj	Adj 3/31/2008	Ratio	Component Cost	Weighted Cost
1							
2	<i>Capital Structure as of 3/31/2008 Per Books</i>						
3							
4	Inter-Company Debt	\$ 2,600,000		\$ 2,600,000	13.16%	5.81%	0.77%
5	Long Term Debt	8,900,000		8,900,000	45.04%	6.91%	3.11%
6	Total Debt	<u>\$ 11,500,000</u>		<u>\$ 11,500,000</u>	58.20%	6.66%	3.88%
7							
8							
9	Preferred Stock	\$ 2,800		\$ 2,800	0.01%	6.00%	0.00%
10							
11	Stockholder's Equity:						
12	Common Stock	\$ 2,187,075					
13	Paid in Capital	3,558,190					
14	Contributed Capital	480,250					
15	Retained Earnings	<u>2,030,563</u>					
16	Common Equity	\$ 8,256,078	\$ -	\$ 8,256,078	41.79%	10.23%	4.28%
17							
18							
19							
20	Total Capitalization	<u>\$ 19,758,878</u>	\$ -	<u>\$ 19,758,878</u>	100.00%		8.16%
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DW 08-098 Aquarion NH  
Testimony of Traun and Eckberg  
Attachment 3

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AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-5

Date of Response: March 26, 2009  
Witness: L. Discepolo

REQUEST: Referring to the response to Staff 1-15. Please add the average interest rate on inter-company debt for each month from the end of the test year to the present to the chart provided in response to Staff 1-15.

RESPONSE: The chart below reflects the computation of the average inter-company borrowing rate charged by the Parent from the end of the test year to present.

Date	Interest Rate
May-07	6.35%
Jun-07	6.36%
Jul-07	6.36%
Aug-07	6.32%
Sep-07	6.33%
Oct-07	6.38%
Nov-07	5.84%
Dec-07	5.83%
Jan-08	5.60%
Feb-08	4.44%
Mar-08	4.05%
Apr-08	3.88%
May-08	3.62%
Jun-08	3.48%
Jul-08	3.46%
Aug-08	3.46%
Sep-08	3.47%
Oct-08	4.79%
Nov-08	3.68%
Dec-08	2.75%
Jan-09	1.81%
Feb-09	1.42%
Average	4.53%

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-55

Date of Response: January 9, 2009  
Witness: L. Discepolo

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REQUEST: Please calculate what a 50 basis point reduction to the requested 10.23% cost of equity means for the overall revenue requirement.

RESPONSE: A 50 basis point reduction to the requested 10.23% cost of equity would reduce the overall revenue requirement by approximately \$70,000.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-10

Date of Response: March 26, 2009  
Witness: C. McMorran

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REQUEST: Referring to the response to OCA 1-6. What is the unaccounted for water percentage for the test year? What is the unaccounted for water percentage for the latest 12 month period for which information is available?

RESPONSE: The requested information is in the below table.

AQUARION WATER COMPANY OF NEW HAMPSHIRE					
12-months ending	System Delivery (1,000s gal)	Revenue Water (1,000s gal)	Accounted for Water Loss (1,000s gal)	Unaccounted for Water Loss (1,000s gal)	Unaccounted for Water (%)
3/31/08	871,121	686,852	10,666	173,603	19.9%
2/28/09	805,291	634,598	51,862	118,831	14.8%

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
 Request No.: OCA 1-6

Date of Response: January 9, 2009  
 Witness: C. McMorran, J. Farrell

REQUEST: Please refer to page 6, lines 10-12, of Mr. Bingaman's testimony. In 2007, the Company classified "172 MG of Water ... as unaccounted" or about 20%. What were the comparable totals and percentages for 2005, 2006, and the most recent 12 months for which the information is available.

RESPONSE: The information requested is below.

AQUARION WATER COMPANY OF NEW HAMPSHIRE					
Year	System Delivery (in 1,000 Gallons)	Revenue Water (in 1,000 Gallons)	Accounted for Water Loss (in 1,000 Gallons)	Unaccounted for Water Loss (in 1,000 Gallons)	Unaccounted For Water (%)
2005	820,020	710,640	30,570	78,810	9.6%
2006	782,498	652,166	24,636	105,696	13.5%
2007	871,546	685,845	13,183	172,518	19.8%
2008 YTD*	816,683	648,383	40,449	127,851	15.7%

\*12 months ending November 2008.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-11

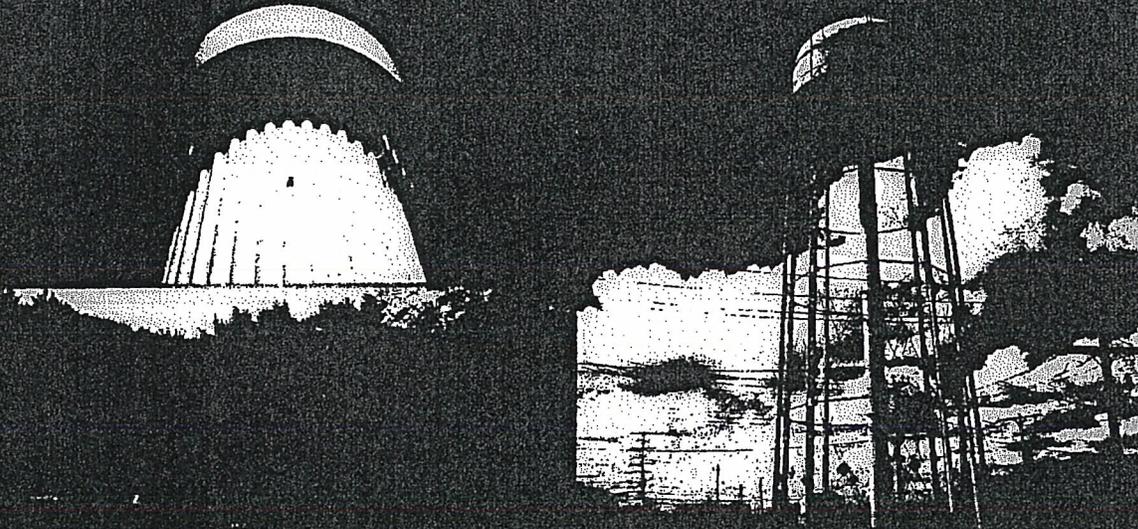
Date of Response: January 9, 2009  
Witness: C. McMorran, J. Farrell

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REQUEST: Please refer to page 8, lines 17-18, of Mr. Bingaman's testimony. Please provide a copy of the Tata & Howard Integrated Water Resource Plan.

RESPONSE: The requested document is attached as OCA-11 Attachment A. The maps associated with this document are contained in OCA-11 Attachment B and C, which are being provided on a confidential basis only.

# Integrated Water Resource Plan

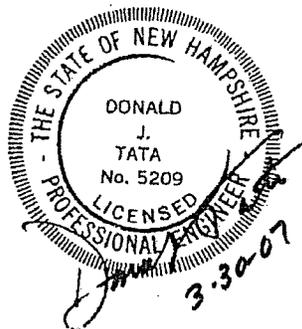


TATA & HOWARD INCORPORATED

*Aquarion Water Company*

**Integrated Water Resource Plan**

**Aquarion Water Company**



Prepared By:

TATA & HOWARD, INC.  
125 Turnpike Road  
Westborough, MA 01581

March 2007

Unaccounted-for Water

Unaccounted-for water can be estimated by taking the difference between the total amount of water supplied and the total water billed and dividing by the total water supplied. This term is typically expressed as a percentage of the total water supplied to the system. Aquarion estimates unmetered water usages including fire fighting and water main flushing and records unbilled metered water usages including blow-offs and treatment process water to assist in estimating the percentage of unaccounted-for water in the system. This component is classified as non revenue usage for Aquarion.

AWWA specifies 10-15 percent as an acceptable level of unaccounted for water in a distribution system. Based on Aquarion's data, the unaccounted-for water percentage in the system was approximately 13 percent in 2006. A conservative estimate of 15 percent unaccounted-for water was used to project water demands.

Average Day Demand

The ADD is the total water supplied to a community in one year divided by 365 days. This term is commonly expressed in millions of gallons per day (mgd). This demand includes all water used for domestic (residential), commercial, industrial, agricultural, and municipal purposes. The municipal component includes water used for system maintenance such as hydrant flushing and fire flows. In addition, the ADD includes unaccounted-for water attributed to unmetered water uses and system leakage.

Aquarion provided an annual breakdown of ADD, MDD, and yearly consumption. The ADD for Aquarion ranged from 2.22 mgd to 2.48 mgd between the years 2000 and 2005, as shown in Table No. 4-1.

According to the billing data for the years 1989 through 1999, commercial and industrial usage was approximately 0.59 mgd and 0.01 mgd, respectively. These rates have been consistent over the past several years. No significant increase in industrial water usage is expected over the 20 year planning period. In the event that a large industrial user is proposed, the industrial water usage component of the ADD should be reevaluated.

However, since Well No. 20 and Well No. 21 were approved by New Hampshire Department of Environmental Services (NHDES) in 2003, the moratorium on service connections was lifted. Therefore, it is estimated that the commercial water usage will increase approximately 20 percent over the 20 year planning period. Historical data indicated that other non-residential users such as municipal buildings were relatively constant at a rate of approximately 0.03 mgd. This value of 0.03 mgd was used in the water demand projections.

Residential consumption has averaged about 70 gallons per capita day (gpcd). AWWA recommends 80 gpcd as a reasonable estimate of residential consumption. For this reason, a conservative estimate of daily per capita demand of 80 gpcd was used to project future water demands through 2025.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-7

Date of Response: January 9, 2009  
Witness: C. McMorran, J. Farrell

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REQUEST: What are the incremental costs (*e.g.*, electricity, treatment costs) for each 1% increase in unaccounted for water? Please explain your answer.

RESPONSE: The incremental cost of producing water is:

1. The total cost of electricity as reflected in the proforma expense in the original filing.
2. Plus the chemical expense as updated in OCA 1-23.
3. Divided by the total water production during the test year.

For each 1% increase in unaccounted for water the incremental cost is \$ 2,645.

SUMMARY OF PRO FORMA ADJUSTMENTS TO O&M EXPENSE

Aquarion Water Company of New Hampshire of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1B  
Page 1 of 1

Line No.	Adjustment Title	Detail on Schedule	Source of Supply	Pumping	Treatment	Transmission & Distribution	Customer Accounting	Administrative & General	Other Income	Total Amount
1										
2	Salaries and Wages	C	\$ 2,075	\$ 19,243	\$ 7,470	\$ 35,803	\$ 7,461	\$ (8,606)	\$ -	\$ 63,446
3										
4	Employee Welfare Expenses	D						36,534		36,534
5										
6	Employee Bonus Program	E						4,143	0	4,143
7										
8	Post Retirement Medical (FAS106)	F						(24,627)		(24,627)
9										
10	Pension Expense	G						(2,578)		(2,578)
11										
12	Amortization of Depreciation Study	H						8,333		8,333
13										
14	Chemical Costs	I			3,883					3,883
15										
16	Purchased Power - Electric	J		(2,962)						(2,962)
17										
18	Miscellaneous/Non-Recurring Items	K			12,920	(2,660)		(33,578)	10,693	(12,645)
19										
20	Building Lease	L						3,733		3,733
21										
22	Corporate Insurance	M						15,583		15,583
23										
24	Audit Fees	N						10,780		10,780
25										
26	Customer Billing	O						(4,400)		(4,400)
27										
28	Purchased Power - Oil & Gas	P		1,909						1,909
29										
30	CIAC Amortization	Q							4,282	4,282
31										
32	Tank Painting Amortization	R				3,208				3,208
33										
34	Shared Facility Costs	S						(5,981)		(5,981)
35										
36	Management Allocation	T						(11,489)		(11,489)
37										
38	Shared Customer Service Costs	U						(24,642)		(24,642)
39										
40	Shared Technology Costs	V						152,328		152,328
41										
42										
Total Proforma Adjustments at present Rates			\$ 2,075	\$ 18,190	\$ 24,273	\$ 36,331	\$ 7,461	\$ 115,535	\$ 14,974	\$ 218,839

DW 08-098 Aquarion NH  
Testimony of Traun and Eckberg  
Attachment 10

Employee Bonus Program

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1E  
Page 1 of 1

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Line No.		
1		
2	Officer	\$ 13,632
3	Exempt - Non-Union	2,850
4	Non-Exempt - Non-Union	<u>2,328</u>
5		
6		\$ 18,810
7	Percent to Expense	<u>84.7%</u>
8		
9	Pro forma Bonus	\$ 15,932
10		
11	Test Year Bonus Charged to Expense	11,789
12		
13	Total Pro Forma Bonus Adjustment	<u>\$ 4,143</u>
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DW 08-098 Aquarion NH  
Testimony of Traun and Eckberg  
Attachment 11

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-1

Date of Response: March 26, 2009  
Witness: L. Discepolo

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REQUEST: Please list and quantify all employee and officer bonuses and all other types of incentives included in the pro forma test year amounts. For each type of bonus or incentive listed please explain if the response to OCA 1-43 is applicable when it states: “No bonus can be earned unless Aquarion Water Company has first achieved earnings at a predetermined level”?

RESPONSE: The table below lists all the Company’s employee and officer bonus plans along with the corresponding amounts reflected in the pro forma test year.

Type of Plan	Participants	Pro forma test year amount
Employee Bonus Program	Non-union employees	\$11,789
Long Term Incentive Plan	Officers	15,907

Both plans contain a financial performance metric, as well as operational performance metrics, that must be achieved before an employee incentive bonus is awarded.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: April 9, 2009  
Request No.: OCA 3-3

Date of Response: April 30, 2009  
Witness: L. Discepolo

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REQUEST: The response to OCA 2-1 shows the total bonus and incentive amounts in the test year to be \$27,696. However OCA 2-7 shows the pro forma amount just for Mr. Bingaman to be \$31,808 (Employee Bonus Program + Long Term Incentive Plan items in table). Please explain.

RESPONSE: The bonus and incentive amounts shown on OCA 2-1 represent the portion of the bonuses applied to expense only and reflected in accounts 920102 (employee bonus program) and 920103 (Long term incentive plan) for the twelve months ended March 31, 2008. It excludes the portion capitalized. Upon review of the Company's response to OCA 2-1 it was discovered that the pro forma Employee Bonus Expense amount shown was incorrect and should have reflected the amount shown on Schedule 1E or \$15,932 and not the actual test year expense amount of \$11,789. The pro forma amount shown on OCA 2-1 for the Long Term Incentive Plan is correct.

The amount shown on OCA 2-7 represents Mr. Bingaman's total bonus, both capital and expense portions. The Company will be adjusting the bonus to remove Mr. Bingaman and replace with Mr. Hibbard, in addition to, adjusting all eligible employees for actual wages.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: April 9, 2009  
 Request No.: OCA 3-1

Date of Response: April 30, 2009  
 Witness: L. Discepolo

REQUEST: Refer to response to OCA 2-1. Please list all the metrics that must be achieved before an employee incentive bonus is awarded. For each, please indicate when it was last changed or revised.

RESPONSE: With respect to the Company's Employee Bonus Plan, the following metrics must be met:

- Threshold: The company must be able to support the payment of incentive compensation in each fiscal year by achieving a threshold "Profit Before Taxes". For 2007, the financial metric was 90% of Aquarion Water Company's Budgeted PBT (Profit Before Taxes).
- If a threshold profit is not achieved, the employee incentive plan will not be funded.
- If threshold profit is achieved, the balanced scorecard results will determine the funding of the Plan.

Scorecard Measures  
 for Service Quality and Product Quality

Critical Success Factor	Measure	Metric	Targets
Service Quality	DPUC Scorecard	Ranking based on number of customer complaints to the DPUC	Top 25% of all utilities in CT
	Call center performance	Call abandonment rate	<5%
	Customer Service Complaints	Number of complaints* per 1,000 households	5.5
	Customer Survey	Customer satisfaction results	(+/-) 87%
Product Quality	Product Compliance Rating	Percent of systems in compliance	100%
	Customer Quality Complaints	Number of complaints per 1,000 households	6

The financial metric is adjusted annually. The Scorecard Measures for Service Quality and Product Quality are reviewed annually and each of the metrics have been in place since 2006.

With respect to the Company's Long Term Incentive Plan, the metrics that must be achieved before a bonus is awarded are shown on OCA 3-1 Attachment A. Aquarion Company's financial metric is adjusted annually. The operational performance targets were established January 1, 2007.

SCHEDULE 1

CALCULATION OF ON TARGET PERFORMANCE

1 On -target performance comprises both Operational and Financial Performance Targets. The Performance Targets for the Plan Period commencing January 1, 2007, and ending December 31, 2009 (the "2007-2009 Plan Period") are below. The Board retains the right to amend the Performance Targets during the Plan Period.

a) Listed in the table below are nine Operational Performance Targets for each year during the 2007-2009 Plan Period, with 27 targets in total for the 2007-2009 Plan Period. Each Operational Performance Target carries equal weighting for the purposes of calculating the Plan Pool applicable to the 2007-2009 Plan Period:

Critical Success Factor	Measure	Metric	Operational Performance Target
Service Quality	DPUC Scorecard	Regulatory Complaints	<32
	Call center performance	Call abandonment rate	<5%
	Customer Service Complaints	Number of complaints	<3,612
	Customer Survey	Customer satisfaction results (Customer Satisfaction Index)	(+/-3%) 87%
Product Quality	Product Compliance with Water Quality Regulations	Number of violations per year	0
	Customer Quality Complaints	Number of complaints	<1,167
Legal & Compliance	Health and Safety	OSHA Incident Rate	<5.3
Capital Planning	Total Capex	Variance between total and planned capital expenditures in a given fiscal year	<10%
	Specific Project Capex	Variance between the final cost and the phase III budget estimates of the PMC process for 90% of all non-programmatic <sup>1</sup> capital projects greater or equal to \$100,000 completed and closed to utility plant during a given fiscal year	<10%

1. Non-Programmatic projects are those projects that are planned and not reactionary. Programmatic projects such as service line replacements (lines are replaced when they fail) and main relocation programs (level of the program is dictated by municipalities and the States in which we do business) are examples of programmatic type projects that should be excluded from this metric.

b) The Financial Performance Targets for the 2007-2009 Plan Period comprises the cumulative total of the EBITDA targets for the three years of the 2007-2009 Plan Period, commencing on 1 January 2007, listed in the table below:

Plan Period Year	Financial Performance Target \$(million)
1 January 2007 to 31 December 2007 Plan Period Year	\$67.6
1 January 2008 to 31 December 2008 Plan Period Year	\$84.1
1 January 2009 to 31 December 2009 Performance Period Year	\$87.0
Cumulative EBITDA for Plan Period	\$238.7

- 2 If the Company achieves the Financial Performance Target for the 2007-2009 Plan Period then the amount to be made available in the Plan Pool for on target performance will be calculated with reference to the achievement of Operational Performance Targets. The following table shows the percentage of the Plan Pool to be paid based on the achievement of the Operational Performance Targets during the 2007-2009 Plan Period:

Number of Operational Performance Targets Achieved in Plan Period	Percentage of Plan Pool Amount
Less than 16	0%
17	55%
18	60%
19	65%
20	70%
21	75%
22	80%
23	90%
24-27	100%

- 3 In November prior to the commencement of each year, the Board will review the Operational and Financial Performance Targets for that year and will either approve or amend each Performance Target. Any amendment, which may be adjusted upward or downward, will take account the following factors:
- a) Business acquisitions by the Company;
  - b) Capital restructuring of the Company;
  - c) Long term debt draw-downs;
  - d) Any refinancing of the Company (including fees paid for any refinancing);
  - e) Other matters at the discretion of the Board.
- 4 The Operational and Financial Performance Targets will not be changed during any year. Any factors that occur during a year will be taken into account when reviewing and/or fixing the Performance Targets for the subsequent year of the 2007-2009 Plan Period.
- 5 The Plan Pool for achievement of the on target performance for the 2007-2009 Plan Period will be \$548,888.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
 Request No.: OCA 1- 43

Date of Response: January 9, 2009  
 Witness: L. Discepolo

REQUEST: Please refer to Schedule 1E, Employee Bonus Program. Please explain the goals and targets used in determining any bonuses?

RESPONSE: The goal of the Employee Bonus Program is to incentivize employees and management behavior toward customer service and business goals and to attract and retain our employees. Aquarion Water Company has established measures and metrics that support the overall philosophy of the Employee Bonus Program and they are defined in the chart below. No bonus can be earned unless Aquarion Water Company has first achieved earnings at a predetermined level. The metrics used to implement the bonus program focus on service and product quality across the entire organization. While the majority are measurable by subsidiary, two (DPU Scorecard and Call Abandonment Rate) do not apply to AWC NH, although they do benefit New Hampshire customers because of the manner in which the call center is operated.

Critical Success Factor	Measure	Metric	Targets
Service Quality	DPUC Scorecard	Ranking based on number of customer complaints to the DPUC	Top 25% of all utilities
	Call center performance	Call abandonment rate	<5%
	Customer Service Complaints	Number of complaints	<3,612
	Customer Survey	Customer satisfaction results (Customer Satisfaction Index)	(+/-3%) 87%
Product Quality	Product Compliance with Water Quality Regulations	Number of violations per year	0
	Customer Quality Complaints	Number of complaints	<1,167

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-12

Date of Response: March 26, 2009  
Witness: L. Discepolo

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REQUEST: Please provide the docket number for and a copy of the final order (or a link to the final order on the web) in the last base rate case for Aquarion Water Company of Connecticut and Aquarion Water Company of Massachusetts. Please list by docket number and date all subsequent adjustments to rates since each base rate case.

RESPONSE: **Aquarion Water Company of Connecticut**

OCA 2-12 Attachment A: Docket No. 07-05-19, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules (December 12, 2007)

OCA 2-12 Attachment B: Docket No. 07-05-19RE01, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules- Rate Base Adjustments (September 17, 2008)

**Aquarion Water Company of Massachusetts**

OCA 2-12 Attachment C: D.T.E. 00-105, Investigation by the Department of Telecommunications and Energy on its own motion as to the propriety of a proposed increase in the rates and charges set forth in the following tariff: M.D.P.U. No. 1, Revised Pages, filed by Massachusetts-American Water Company (April 26, 2001)

OCA 2-12 Attachment D: D.T.E. 05-94-A, Petition of Aquarion Water Company of Massachusetts for approval of revisions to tariff: M.D.T.E. No 1, filed with the Department of Telecommunications and Energy on December 22, 2005, for service on and after January 1, 2006 (2007) (March 9, 2007)



## STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL  
TEN FRANKLIN SQUARE  
NEW BRITAIN, CT 06051

DOCKET NO. 07-05-19 APPLICATION OF AQUARION WATER COMPANY OF  
CONNECTICUT FOR AMENDED WATER SERVICE RATE  
SCHEDULES

December 12, 2007

By the following Commissioners:

John W. Betkoski, III  
Anthony J. Palermino  
Donald W. Downes

**DECISION**

Since then, the Company has submitted Supplemental Late Filed Exhibit No. 23, which updates the calculation of the New York purchased water expense (Schedule LMD-1) to reflect the final updates in Supplemental Late Filed Exhibit No. 75. The updated calculation of this expense properly reflects the modifications substantiated by UWW.

As a result, Aquarion states that it would receive pro forma revenues from UWW during the rate year totaling \$3,500,241, if all of the Company's claims were adopted in this case. Supplemental Late Filed Exhibit No. 23, Attachment 1, Revised LMD-1, p. 2; Attachment 2, Exhibit E, Revised Schedule E-5.2, p. 26.

## **H. EXPENSES AND DEPARTMENT ADJUSTMENTS**

### **1. Employee Bonus Program**

The Company proposed \$675,244 for the pro forma Employee Bonus Program at an allocated expense/capitalization rate of 81.6% that calculates to \$550,999. Late Filed Exhibit No. 47 and Late Filed Exhibit No. 75, Schedule WPC-3.3. The Company's test year amount was \$463,316 allocated at the rate of 71.4%. The Department has developed the allocation rate of 77.9%, as explained in Section II., G., 11. The Department therefore calculates the allocation using the 77.9% rate that results in the amount of \$526,015 ( $\$675,244 \times 77.9\%$ ).

During cross-examination, the Company's witness testified that although, in the 2004 Decision, the Company was allowed 25% of this expense above-the-line, it presented the adjustment for this program at 100% above-the-line. The witness further testified that the Company believed that the disallowance of this expense being recorded above-the-line, in the last rate case, was due to the fact that the metrics of the program were based on financial goals that benefited the shareholders. In addition, the witness testified that the Company has changed this bonus program so that the metrics are customer based. Tr. 9/11/07, pp. 1210-1215.

The OCC, in its brief, discussed the changes to the program and noted that the Company added more customer service oriented goals as the main driver of the program. However, whether or not any bonuses are paid is based on the Company's profit level. The Department agrees with the OCC and the AG in that the plans are shareholder driven with profit being the motivating factor of the plan. OCC Brief, pp. 39-42; AG Brief, p. 13.

In keeping consistent with prior decisions, the Department will allow 25% of the \$526,015, or \$131,504, of the Employee Bonus expenses to be recorded above-the-line for ratemaking purposes. Therefore, the Department reduces this expense by \$394,511 ( $\$526,015 \times 75\%$ ).

In addition, the Company paid \$312,408 in regard to the Long-term Incentive Plan. During cross-examination, the Company's witness testified that the entire amount was reflected in the test year figures and that the allocation had not been applied. The targets of this plan are very similar to the Employee Bonus Program. Tr. 9/18/07, pp.

1565-1568. The Department will allow \$78,102 for the Long-term Incentive Plan. Therefore, this expense is reduced by \$234,406 ( $\$312,408 \times 75\%$ ).

In summary, the allowed above-the-line amount for the Employee Bonus Program is \$131,504 and the allowed above-the-line amount for the Long-term Incentive Plan is \$78,102.

## **2. Organizational Dues**

During the audit, the Company provided a printout of Account No. 930.0201, which lists Company Dues and Memberships as well as a Vendor Payment list for the test year. As a result of reviewing these lists and cross-examination, the Department concluded that a total of \$31,600 was paid to various organizations. The Company filed a listing of these payments in Late Filed Exhibit No. 61, including those payments listed below-the-line. In the past, the Department has allowed 50% of these types of expenses. The Department is troubled by the fact that the Company ignored the 2004 Decision and submitted 100% of these expenses. Therefore, these expenses are reduced by \$15,800 ( $\$31,600 \times 50\%$ ).

In addition, the Company paid the Bridgeport Economic Resource Center (BERC) a total of \$43,750 and the Connecticut Economic Resource Center (CERC) a total of \$41,000 during the test year. The Company submitted 100% of the amount of these expenses even though the Department ruled in the 2004 Decision that only 50% of these expenses would be allowed. Tr. 9/11/07, pp. 1262-1263. In keeping with past practice, the Department will allow 50% of these payments. Therefore, the \$43,750 total for BERC will be reduced by 50%, or \$21,875 ( $\$43,750 \times 50\%$ ), and the total for CERC will be reduced by 50%, or \$20,500 ( $\$41,000 \times 50\%$ ). In summary, the total amount allowed for the above expenses is \$58,175.

## **3. Charitable Contributions**

In reviewing the audit materials, Department staff discovered many Charitable Contributions made by the Company during the test year. The Company submitted Late Filed Exhibit No. 61, listing the contributions for a total of \$18,201. The Department agrees with the list with the exception of the amount of \$125 paid to the Rotary Club of Mystic. The Department has included this amount with the organization dues. Therefore, the Department has calculated the amount of \$18,076 to be the correct amount of Charitable Contributions paid out by the Company during the test year.

The Company is free to contribute to these types of organizations, however, these costs should not be recovered from ratepayers as no benefit is received by them. The OCC, in its brief, concurs with this belief. OCC Brief, p. 49. These same types of contributions were denied in the last rate case and are again being denied. Therefore, Operation and Maintenance expenses (O&M) are reduced by \$18,076.

## **4. H.E.A.R. Wellness**

During cross-examination, the Department questioned a payment in the amount

Item	Amount	Years	Annual Expense
Cost of Service	\$140,000	6	\$23,333
Cost of Equity	\$150,000	4	\$37,500
Depreciation	\$60,000	6	\$10,000
SAP	\$34,000	6	\$5,666
Engineering	\$25,280	6	\$4,213
Legal	\$600,000	4	\$150,000
OCC	\$150,000	4	\$37,500
Notices	\$95,000	4	\$23,750
Transcript	\$60,000	4	\$15,000
Total			\$306,962

The annual amortization of \$306,962 is the amount allowed for this rate case and results in a reduction of \$129,465 when compared to the Company-requested \$436,427.

## 20. Corporate Expense

The Company is requesting \$766,650 for a management fee which is paid to MUI. The amount is calculated by applying AWC-CT's percentage of shared expenses (85.5%) to the overall management fee to Aquarion's operating companies of \$896,667.

The OCC calls for disallowance of this expense, based on insufficient evidence submitted by the Company throughout this proceeding and rates charged and hourly rates for certain items, which in some circumstances are \$356 per hour. The OCC requests that if, in the next rate case, Aquarion requests recovery of MUI management fees, the Department should require the Company to file detailed MUI expenses that are directly charged to Aquarion, as well as a listing of expenses that are subject to allocation and the calculation showing how Aquarion's allocation was determined. OCC Written Exceptions, pp. 5-8.

The Company states that the fee represents substantial savings as compared to the fee charged by its former shareholder, Kelda, which was in excess of \$1.2 million. The amount is agreed upon at the beginning of each year and is then re-evaluated each year with discussion between MUI and Aquarion to set an appropriate fee based upon expected benefit. Company Brief, p. 28.

The fee has been reduced from the period when Kelda held the Company. However, that does not make the current request a credible figure. The OCC makes valid arguments, in terms of quality and quantity of evidence presented by the Company, that the management fee requested has not been proven as reasonable. While MUI provides benefit to Aquarion, the case for allowance of a \$766,650 expense has not been made in this proceeding. The Department will allow a portion of the requested expense, 25% or \$191,663, and disallow the remainder, \$574,987.<sup>25</sup> In

<sup>25</sup> The Department made a similar disallowance for lack of supporting documentation in Birmingham's recent rate case. Decision dated November 28, 2006, in Docket No. 06-05-10, Application of Birmingham Utilities, Inc. to Increase Its Rates, Section II.F.8, pp. 38, 39.

future rate cases, the Department directs the Company to submit detailed information regarding this expense to include benefit conferred, justification of hourly rates, detailed listing of all allocable expenses and calculations supporting the allocation methodology.

## 21. Depreciation Expense

As part of its filing and request in this proceeding, the Company submitted a depreciation study (Study) of all utility property in all divisions of the Company. Shutt PFT, p. 8. Based on the results of that Study, which used the broad group procedure and remaining life (RL) technique, the Company proposed revised depreciation rates for all its depreciable utility property and recommended that the rates be made uniform across all its divisions. Shutt PFT, p. 12; Response to Interrogatory WA-170. Currently, the Company's four divisions use different depreciation rates approved at different times and reflecting the various depreciation parameters of service life and salvage value found appropriate when the Company acquired each division. The Study represents the first extensive formal review of depreciation rates any of the divisions has had in at least ten years. Shutt PFT, pp. 9-11. Based on the results of the Study and the Company's anticipated utility plant balances as of November 30, 2007, the Company initially requested an increase of \$5,002,143, including amortization of CAWC's Treetops Conservation Easement, over the test year level of depreciation expense of \$20,150,654 for a total depreciation expense request of \$25,152,797. Application, Schedules C-3.33 and WPC-3.33. The Company subsequently revised its request to take into account updates to its plant balances and changes to the composition of and depreciation rates for its two computer equipment subaccounts. The Company's revised request is for \$25,367,083 in depreciation expense, \$5,216,429 above the test year level. Supplemental Late Filed Exhibit No. 75, Schedules C-3.33 and WPC-3.33.

The OCC provided a witness, Frank W. Radigan, who reviewed the Study and testified that based on the information contained in the Study certain changes should be made to the proposed depreciation rates. The OCC witness disputed the average service life (ASL) of 65 years used for Accounts 316 and 343 claiming that the Study results indicated that longer life curves better fit the retirement data. The witness recommended that an ASL of 75 years be used for these accounts. Radigan PFT, pp. 5-6. In addition, the witness felt that the Study did not contain sufficient data to support the Company's proposed net salvage rates, particularly as applied to its supply, water treatment, transmission and distribution plant. The witness recommended that a uniform negative net salvage value of 5% be used to set depreciation rates for these accounts instead of the proposed net salvage rates, which ranged from negative 5% to negative 25%. The impact of the witness's recommendations is to reduce the Company's proposed depreciation expense by approximately \$3.8 million. Radigan PFT, pp. 7-9; OCC Brief, pp. 3, 63-67.

The Department's review of the Study also found weaknesses in the Study similar to those found by the OCC witness, namely that the retirement data was insufficient to support many of the proposed net salvage rates and the retirement data for Accounts 316 and 343 was either insufficient in the case of Account 316 or contrary in the case of Account 343 to the proposed ASL of 65 years used for the accounts. In these instances, the Department raised its concerns to the Company in the form of interrogatories and cross-examination questions to determine if the proposed lives and

SALARIES & WAGES

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1C  
Page 1 of 1

Line No.	SUMMARY	ACCOUNT DISTRIBUTION								
		Source of Supply	Pumping	Treatment	Transmission & Distribution	Customer Accounting	Administrative & General	Other Income	Other Cos/ Capital	Total
1										
2		<u>Basic Wages</u>								
3	<u>AWC of New Hampshire Employees</u>									
4	Officer Wages	\$ 68,160								
5	Exempt - Non Union (2 F/T employees)	136,995								
6	Non- Exempt Non-Union Wages (1 F/T, 2 P/T employees)	71,188								
7	Union Employees (8 employees w/salaries effective 12/1/2007)	373,922								
8	Wage Increase effective 12/01/2008 per Union Contract (3%) plus one emp. 6 month step increase)	12,211								
9	Base Wages	\$662,476								
10	Standby, OT, Shift Differential wages incurred during test year	28,603								
11	Wage Increase applied to Standby, OT, Shift Differential ( 3%)	858								
12	Pro Forma Wages	\$691,937	\$ 10,131	\$ 94,583	\$ 36,597	\$ 175,977	\$ 36,668	\$ 232,116	\$ 105,866	\$ 691,938
13	Percent Charged to Expense	84.7%								
14	Pro Forma Wages Charged to Expense	586,071								
15										
16	Test Year Gross Wages	610,069	8,070	75,340	29,151	140,174	29,207	243,760	84,368	610,070
17		86.2%								
18	Test Year Wages charged to Expense	525,703								
19	Pro Forma Adjustment	\$ 60,368	(A)	\$ 2,061	\$ 19,243	\$ 7,446	\$ 35,805	\$ 7,461	\$ (11,644)	\$ 60,370
20										
21										
22										
23	<u>Svc Co.: Test Year Wages to AWC-NH</u>									
24										
25										
26	Service Company Test Year Wages	\$ 127,970	\$ 455		\$ 812			\$ 101,266	\$ 25,437	\$ 127,970
27	Service Company Test Year Wages Charged to Expense	\$ 102,533								
28										
29										
30	Adjustment to Svc.Co. Wages to reflect April 1, 2008 Pay Increase (3%)	\$ 3,076	(B)	\$ 14	\$ 24			\$ 3,038		\$ 3,076
31										
32										
33										
34										
35	Total Pro Forma Wage Adjustment	\$ 63,444	(A + B)	\$ 2,075	\$ 19,243	\$ 7,470	\$ 35,803	\$ 7,461	\$ (8,606)	\$ 63,446
36										
37										
38	<sup>1</sup> Calculation found in Standard Filing Requirements, Response 28.									
39										
40										

DW 08-098 Aquarion NH  
 Testimony of Traum and Eckberg  
 Attachment 17

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-39

Date of Response: January 9, 2009  
Witness: L. Discepolo

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REQUEST: Please refer to page 8, lines 3 through 6, of Ms. Discepolo's testimony, regarding proforma adjustments related to the annual 3% increase effective December 1, 2008. Please calculate 4 months of that increase and 4 months of the step increase mentioned in line 4.

RESPONSE: OCA 1-39 Attachment A is the proforma wage adjustment amended to reflect eight months of union employee wages, including the one union employee eligible for a step adjustment, at the December 1, 2007 wage rates and four months at the December 1, 2008 wage rates. Wages were also adjusted to reflect the actual Operations Manager wage as disclosed in OCA 1-38.

Aquarion Water Company of New Hampshire  
 Salary and Wages

	<u>Basic Wages</u>	
<u>AWC of New Hampshire Employees</u>		
Officer Wages	\$ 68,160	
Exempt - Non Union (2 F/T employees)	\$ 131,995	
Non- Exempt Non-Union Wages (1 F/T, 2 P/T employees)	71,188	
Union Employees (8 employees w/salaries effective 12/1/07)	373,922	
Union Employees (8 employees w/salaries increases for 4months @ new rate)	4,070	
Standby, OT, Shift Differential wages incurred during test year	28,603	
Wage Increase applied to Standby, OT , Shift Differential ( 4 months @ new rate)	311	
Pro Forma Wages	678,250	
Percent Charged to Expense	84.7% <sup>1</sup>	
Pro Forma Wages Charged to Expense	574,478	
Test Year Gross Wages	610,069	
	86.2%	
Test Year Wages charged to Expense	525,703	
Pro Forma Adjustment	<u>\$ 48,775</u>	(A)

Svc Co.: Test Year Wages to AWC-NH

Service Company Test Year Wages	\$ 127,970	
Service Company Test Year Wages Charged to Expense	\$ 102,533	
Adjustment to Svc.Co. Wages to reflect April 1, 2008 Pay Increase (3%)	<u>\$ 3,076</u>	(B)
Total Pro Forma Wage Adjustment	<u>\$51,851</u>	(A + B)

<sup>1</sup> Calculation found in Standard Filing Requirements, Response 28.

PAYROLL TAXES

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1X  
Page 1 of 1

Line No.		Pro Forma	Test Year	Adjustment
1				
2	<u>FICA</u>			
3	Proposed Wages	\$ 691,938		
4	Add Bonus	18,810		
5				
6	Medicare Tax Base	<u>\$ 710,748</u>		
7	Wages over limit	43,542		
8	Social Security Tax Base	<u>\$ 667,206</u>		
9				
10	Social Security Rate	6.20%	\$ 41,367	
11	Medicare Rate	1.45%	<u>10,306</u>	
12	Pro Forma FICA Expense		<u>\$ 51,673</u>	
13				
14	<u>Federal Unemployment</u>			
15	Employees	13		
16	Tax base	7,000		
17	Rate	0.80%	\$ 728	
18				
19	Employee	1		
20	Tax base	7,000		
21	Rate	0.80%		
22	Percent allocated to AWC NH	0.375	21	
23			<u>\$ 749</u>	
24	<u>State Unemployment</u>			
25	Employees	13		
26	Tax base	8,000		
27	Rate	0.10%	\$ 104	
28				
29	Employee	1		
30	Tax base	14,000		
31	Rate	2.87%		
32	Percent allocated to AWC NH	0.375	151	
33			<u>\$ 255</u>	
34				
35	Total Payroll Taxes		\$ 52,677	
36	% to Expense		84.7%	
37	Payroll Tax Expense	<u>\$ 44,617</u>	<u>\$ 37,553</u>	<u>\$ 7,064</u>
38				
39				
40				

DW 08-098 Aquarion NH  
Testimony of Traum and Eckberg  
Attachment 19

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1- 40

Date of Response: January 9, 2009  
Witness: L. Discepolo

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REQUEST: Please refer to page 17, lines 11-14, of Ms. Discepolo's testimony. Please provide the pro forma adjustment for payroll taxes using the results of the previous question (*i.e.*, based upon 4 months of increased wages and the step increase).

RESPONSE: OCA 1-40 Attachment A is the proforma payroll tax adjustment as a result of the changes to wages identified in OCA 1-39.

PURCHASED POWER - ELECTRIC

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1J  
Page 1 of 1

Line No.	Test Year Bills @ Old Rates	04/07 to 06/07 KW Usage	04/07 to 06/07 KWH Rate \$0.0859 to \$0.0957	Adjustment	07/07 to 12/07 KW Usage	07/07 to 12/07 KWH Rate \$0.0783 to \$0.0957	Adjustment	01/08 to 03/08 KW Usage	01/08 to 03/08 KWH Rate \$0.0882 to \$0.0957	Adjustment	Total Pro Forma Adjustments	Pro Forma PSNH Expense	
	A	B	C	D (B x C)	E	F	G (E x F)	H	I	J (H x I)	K(D + G + J)	L (A + K)	
1	A) To reflect increased costs from PSNH per PUC orders 24,768, 24,814 & 24,871.												
2													
3													
4													
5													
6													
7	Public Service of New Hampshire												
8	Booster #2	\$ 8,794.57	18,420	\$ 0.0098	\$ 180.52	29,679	\$ 0.0174	\$ 516.41	16,754	\$ 0.0075	\$ 125.66	\$ 822.59	\$ 9,617.16
9	Lovering Rd	22,046.27	39,100	0.0098	383.18	87,200	0.0174	1,517.28	42,900	0.0075	321.75	2,222.21	24,268.48
10	Willow Ave	958.62	1,980	0.0098	19.40	1,480	0.0174	25.75	2,410	0.0075	18.08	63.23	1,021.85
11	Maple Rd	1,107.78	2,410	0.0098	23.62	1,610	0.0174	28.01	3,100	0.0075	23.25	74.88	1,182.66
12	Well #13A	4,113.76	5,940	0.0098	58.21	2,800	0.0174	48.72	5,980	0.0075	44.85	151.78	4,265.54
13	Crenshaw Well #10	13,635.25	24,264	0.0098	237.79	70,341	0.0174	1,223.93	11,226	0.0075	84.20	1,545.92	15,181.17
14	Well #12	14,846.97	35,924	0.0098	352.06	65,889	0.0174	1,146.47	23,438	0.0075	175.79	1,674.31	16,521.28
15	Well #14	6,413.23	6,700	0.0098	65.66	19,200	0.0174	334.08	17,020	0.0075	127.65	527.39	6,940.62
16		\$ 71,916.45	134,738		\$ 1,320.43	278,199		\$ 4,840.66	122,828		\$ 921.21	\$ 7,082.31	\$ 78,998.76
17													
18													
19													
20													
21													
22													
23													
24													
25													\$ 127,289.51
26													
27													\$ 206,288.27
28													
29													209,250.39
30													
31													\$ (2,962.13)
32													
33													
34													
35													
36													
37													
38													
39													
40													

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: April 9, 2009  
Request No.: OCA 3-38

Date of Response: April 30, 2009  
Witness: L. Discepolo

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REQUEST: Refer to response to NH 1-50. Please quantify the total amount incurred during the test year and between April 1, 2008 and March 31, 2009 related to the cost of electricity.

RESPONSE: The cost of electricity expensed during the test year of \$209,250.39 is reflected in Schedule No. 1J. This amount was adjusted by applying the most recent PSNH kwh rate, as authorized by the NH PUC in Order No. 24,871, to the Company's test year consumption and taking the twelve months of Unitil bills from the test year, which resulted in a pro forma electrical expense of \$206,288.27.

The amount paid to Unitil and PSNH for the cost of electricity between April 1, 2008 and March 31, 2009 is \$205,100.57.

PURCHASED POWER - OIL & GAS

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1P  
Page 1 of 1

Line No.			
1			
2			
3	<u>Northern Utility Gas</u>		
4			
5	Test Year Bills Adjusted for Current Rates	\$	2,862
6	Test Year Actual Expense per GL		3,116
7			
8	Pro Forma Gas Adjustment	\$	<u>(254)</u>
9			
10			
11	<u>Amerigas Propane</u>		
12			
13	Test Year Bills Adjusted for Current Rates	\$	4,598
14	Test Year Actual Expense per GL		2,866
15			
16	Pro Forma Propane Adjustment	\$	<u>1,732</u>
17			
18			
19	<u>Lamprey Bros. Fuel Oil</u>		
20			
21	Test Year Bills Adjusted for Current Rates	\$	2,988
22	Test Year Actual Expense per GL		2,557
23			
24	Pro Forma Fuel Oil Adjustment	\$	<u>432</u>
25			
26			
27	Total Pro Forma Adjustment	\$	<u>1,909</u>
28			
29			
30			
31			
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AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-4

Date of Response: March 26, 2009  
Witness: L. Discepolo

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REQUEST: Referring to Schedule 1P and the response to OCA 1-24. Please recalculate the pro forma adjustments for gas, propane and fuel oil using the “most recent” prices for these commodities. Please provide the calculations.

RESPONSE: Please see OCA 2-4 Attachment A to reflect the recalculation of the pro forma adjustments.

The calculations were as follow:

Gas: is a reflection of the twelve months of actual bills during the test year. This amount has not changed since the original filing.

<u>Propane</u> : Usage:	1,039.40 gallons (used during the test year)
Multiplied by Price:	\$3.649 (Price in response to OCA 1-24)
Plus Hazmat Surcharge:	\$96.73 (Amount charged during the test year)
Plus Fuel Recovery Fee:	<u>\$32.83</u> (Amount charged during the test year)
Total:	\$3,922.33

<u>Fuel Oil</u> : Usage:	739.9 gallons (used during the test year)
Multiplied by Price:	<u>\$3.989</u> (Price in response to OCA 1-24)
Total:	\$2,951.46

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: April 9, 2009  
Request No.: Staff 3-3

Date of Response: April 30, 2009  
Witness: T. Dixon

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REQUEST: Please explain why at least some of the costs detailed in the response to Staff 2-26(f) are not considered non-recurring.

RESPONSE: The Company has reviewed the various IT charges from the test year and determined that, of the costs detailed in the response to Staff 2-26(f), \$59,020.37 relate to charges from Consulting Services, Inc for SAP support and training immediately following the SAP implementation. The Company does not believe that this type of service is likely to recur until the next computer conversion it undertakes.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-25

Date of Response: March 26, 2009  
Witness: T. Dixon

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REQUEST: Referring to Schedule IT. Is the \$37,494 the total amount allocated to MUI in the test year? If not, please explain.

RESPONSE: \$37,494 represents the proposed pro forma expense related to the MUI Management Fee that would be charged to Aquarion Water Company of New Hampshire. In the test year, the gross charge was a combination of a Kelda Management Fee for April and an MUI Fee for May through March. The test year amount allocated to AWC-NH was \$40,390.

MANAGEMENT ALLOCATION

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1T  
Page 1 of 2

Line No.		Test Year	Pro Forma Adjustment	Pro Forma	
1					
2	Corporate Costs				
3					
4	MUI Management Fee	\$ 958,885	\$ (62,218)	\$ 896,667	
5	Auditing & Consulting	111,655	(3,855)	107,800	
6	Legal	40,701	-	40,701	
7	Employee Wages and Benefits	281,840	(32,228)	249,613	
8	Bank Fees	149,770	-	149,770	
9	Building Overhead	23,103	(11,505)	11,598	
10	Other	(12,155)	12,397	242	
11					
12	Total	<u>\$ 1,553,799</u>	<u>\$ (97,408)</u>	<u>\$ 1,456,391</u>	
13					
14	Allocation Based on Massachusetts Formula			4.18%	(see page 2 of 2)
15					
16	<u>AWC-NH Share of Costs</u>				
17					
18	MUI Management Fee			\$ 37,494	
19	Auditing & Consulting			4,508	
20	Legal			1,702	
21	Employee Wages and Benefits			10,437	
22	Bank Fees			6,263	
23	Building Overhead			485	
24	Other			10	
25					
26	Total Pro Forma Expense			\$ 60,898	
27	Test Year Expense			72,387	
28					
29	Pro Forma Cost Reduction			<u>\$ (11,489)</u>	
30					
31					
32					
33					
34					
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36					
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39					
40					

DW 08-098 Aquarion NH  
Testimony of Traun and Eckberg  
Attachment 27

MANAGEMENT ALLOCATION

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1T  
Page 2 of 2

Line No.	Mass Formula - 2008			
1				
2	Gross Revenues			
3	<u>2007 Act</u>			
4	CT	\$ 115,956		84.8%
5	MA	12,277		9.0%
6	NH	5,214		3.8%
7	Utility	\$ 133,447		97.5%
8	NonUtility	3,364		2.5%
9	Total	\$ 136,811		100.0%
10				
11	Average Gross Plant			
12		<u>12/31/2006</u>	<u>12/31/2007</u>	<u>Average</u>
13	CT	\$ 841,597	\$ 878,604	\$ 860,101 87.8%
14	MA	86,554	89,174	87,864 9.0%
15	NH	30,243	32,598	31,421 3.2%
16	Utility	\$ 958,394	\$ 1,000,376	\$ 979,385 100.0%
17	NonUtility	443	443	443 0.0%
18	Total	\$ 958,837	\$ 1,000,819	\$ 979,828 100.0%
19				
20	Gross Payroll			
21	<u>2007 Act</u>			
22	CT	\$ 18,104		87.9%
23	MA	1,573		7.6%
24	NH	590		2.9%
25	Utility	\$ 20,267		98.4%
26	NonUtility	326		1.6%
27	Total	\$ 20,593		100.0%
28				
29	Weightings			
30		<u>Revenue</u>	<u>Plant</u>	<u>Payroll</u> <u>Average</u>
31	Utility	97.5%	100.0%	98.4% 98.64%
32	Non Utility	2.5%	0.0%	1.6% 1.36%
33				
34	Customers			
35		<u>2007</u>	<u>Cust %</u>	<u>Util %</u> <u>Alloc. Amt.</u>
36	CT	179,594	86.8%	98.64% 85.63%
37	MA	18,514	8.9%	98.64% 8.83%
38	NH	8,770	4.24%	98.64% 4.18%
39		206,878		
40				

DW 08-098 Aquarion NH  
Testimony of Traun and Eckberg  
Attachment 27

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
 Request No.: Staff 2-23

Date of Response: March 26, 2009  
 Witness: L. Discepolo

REQUEST: Regarding Schedule No. 1M; Page 1 of 1:

- a) For comparative purposes, please provide the allocated insurance cost that is reflective of the December 1, 2006 / April 30, 2007 plan year for each policy listed on this schedule.
- b) Please provide specific explanations for any increases in individual policy costs indicated on Schedule No. 1M when compared to the response in (a).
- c) Please provide further explanation regarding the “Domestic CGL” policy.

RESPONSE:

- a) The table below compares the allocated insurance costs for the December 1, 2006/April 30, 2007 policy renewal date to the December 1, 2007/April 30, 2008 policy renewal date.

Policy Name	December 1, 2006 / April 30, 2007 Policy Period	December 1, 2007 / April 30, 2008 Policy Period	Variance Increase (Decrease)
Property	\$1,849	\$1,775	(\$ 74)
Fiduciary	1,143	1,048	(95)
Business Travel	45	41	(4)
Director’s and Officer’s Liability	3,299	3,274	(25)
Domestic CGL	13,608	24,875	11,267
Excess Liability	7,778	9,150	1,372
Administrative Fee	2,542	6,173	3,631
Worker’s Compensation	9,015	15,541	6,526
Automotive	11,194	11,220	26
Total	\$50,473	\$73,097	\$22,624

- b) The Domestic CGL policy increased \$11,267 due to a change in coverage provisions moving from a self insured program up to \$300,000 annually for general liability claims to a guaranteed cost program, whereby the Company now has first dollar coverage. This policy change was made in an effort to mitigate the Company’s financial risk. The Domestic CGL premium increased by \$20,737 to reflect the

guaranteed coverage, however it was offset by \$9,470 of accrued claim expense under the self insured program.

The Excess Liability policy increased \$1,372 due to a rate increase.

The Administrative Fee increased \$3,631 due to the change from a self insured programs to a guaranteed cost programs.

The Worker's Compensation policy increased \$6,526 due to a change in coverage provisions from a \$250,000 annual claims deductible program to a guaranteed cost program, whereby the Company now has first dollar coverage. The program change was initiated in an effort to mitigate the Company's financial risk. The Worker's Compensation premium increased \$13,230 to reflect the guaranteed coverage program, however it was offset by \$5,676 of accrued claim expense attributable to the deductible program.

The Automotive policy increased \$26 due to a change in coverage provisions from a \$200,000 annual claims deductible to a guaranteed cost program, whereby the Company now has first dollar coverage. As previously noted this change was made in an effort to mitigate the Company's financial risk.. The Automotive Liability premium increased \$5,554 due to the guaranteed coverage program, however it was offset by \$5,528 of accrued auto claim expense attributed to the deductible program.

- c) Domestic CGL represents the Company's Domestic Comprehensive General Liability policy. It provides coverage for third-party property and liability damage claims arising out of the Company's operations.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-6

Date of Response: March 26, 2009  
Witness: L. Discepolo

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REQUEST: Referring to the response to Staff 1-17. Please quantify the dollar amount associated with the 17% of the dues paid to the NAWC for lobbying activities.

RESPONSE: NAWC dues expensed in the test year amounted to \$4,898.94. The amount associated with lobbying activities was \$832.82 ( $\$4,898.94 * 17\%$ ).

**AQUARION WATER COMPANY OF NEW HAMPSHIRE**

**PUC 1604.01- Section 6**

- List of advertising charged in the test year above the line showing expenditures by media and by subject matter
  - a. If the utility's annual gross revenue are less than \$100,000, all expenditures shall be reported;
  - b. If the utility's annual gross revenue's are \$100,000 or are between \$100,000 and \$10,000,000, all expenditures of \$1,000 and more shall be reported;
  - c. If the utility's annual gross revenue's are \$10,000,000 or are between \$10,000,000 and \$100,000,000, all expenditures of \$2,500 and more shall be reported;
  - d. If the utility's annual gross revenue's are \$100,000,000 or are in excess of \$100,000,000, all expenditures of \$5,000 and more shall be reported.

**Attached.**

AWC Of New Hampshire

Advertising Expenses by Media and Subject matter for the test year 04/01/07 - 03/31/08

<u>Description</u>	<u>Amount</u>
North Hampton Pal                      Sponsor of North Hampton Back to School Picnic	2,100.00
	<u>2,100.00</u>

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-56

Date of Response: January 9, 2009  
Witness: L. Discepolo

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REQUEST: Please refer to the Company's PUC 1604.01 filings:

- a) How was the \$2,000 charitable contribution recorded in Section 5 booked for rate making (i.e., above or below the line)?
- b) How was the \$2,000 advertising expense recorded in Section 6 booked for rate making (i.e., above or below the line)? If booked above the line, please provide detailed information about what the money was spent on.
- c) Please explain why the Officer and Director compensation recorded in Section 14 is zero?

RESPONSE: a) The charitable contribution was recorded below the line and the cost is not included in this rate case request.

b) North Hampton Pal advertising expense was recorded above the line. It was a sponsorship advertisement to the North Hampton Back to School Picnic.

c) The Officer and Director compensation recorded in Section 14 is zero since the officers listed do not receive additional compensation for serving on the Company's Board of Directors.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: April 9, 2009  
Request No.: OCA 3-36

Date of Response: April 30, 2009  
Witness: C. McMorran

---

REQUEST: Regarding the response to NH 1-19, Attachment B. Did the company pay for lunch for all attendees at each of the Fire Chiefs Council Meetings held during the test year? If so, please quantify these expenses.

RESPONSE: The Fire Chiefs Council Meetings held during the test year included the June 13, 2007 meeting with an expense of \$42.13 and a November 13, 2007 meeting\* with an expense of \$172.93.

\*The November 2007 Fire Chiefs meeting was not included in the response to NH 1-19.

RATE BASE

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 3  
Page 1 of 1

Line No.	Description	3/31/2008	3/31/2007	3/31/2006	13 Month Average	Pro Forma Adjustments <sup>1</sup>	Pro Forma	Reference
1								
2								
3	Plant in Service	\$ 32,245,628	\$ 29,700,590	\$ 27,530,667	\$ 30,162,763	\$ 2,082,865	\$ 32,245,628	3A
4								
5	Accumulated Depreciation	(8,423,156)	(7,724,717)	(7,050,480)	(8,113,258)	(309,898)	(8,423,156)	3B
6								
7	Net Plant in Service	<u>\$ 23,822,472</u>	<u>\$ 21,975,874</u>	<u>\$ 20,480,187</u>	<u>\$ 22,049,504</u>	<u>\$ 1,772,967</u>	<u>\$ 23,822,472</u>	
8								
9								
10	Add:							
11	Materials & Supplies	99,823	158,155	119,509	167,097		167,097	3B
12	Prepayments	14,864	(4,912)	24,546	16,743		16,743	3B
13	Deferred Expenses (net of amortization)	390,881	492,133	531,473	433,178		433,178	3B
14	Working Capital Allowance	190,588	198,016	156,407	197,976		197,976	3D
15								
16	Total Additions	<u>696,135</u>	<u>843,393</u>	<u>831,935</u>	<u>814,994</u>	<u>-</u>	<u>814,994</u>	
17								
18								
19	Less:							
20	Customer Advances	(2,000)	(11,385)	(381,695)	(7,866)		(7,866)	3C
21	Contributions in Aid of Constructions	(2,392,953)	(2,420,064)	(2,080,859)	(2,405,349)		(2,405,349)	3C
22	Reserve for Deferred Taxes	(2,300,095)	(2,318,657)	(2,238,149)	(2,328,826)		(2,328,826)	3C
23								
24	Total Deductions	<u>(4,695,048)</u>	<u>(4,750,106)</u>	<u>(4,700,703)</u>	<u>(4,742,041)</u>	<u>-</u>	<u>(4,742,041)</u>	
25								
26								
27	Total Rate Base	<u>\$ 19,823,559</u>	<u>\$ 18,069,161</u>	<u>\$ 16,611,418</u>	<u>\$ 18,122,458</u>	<u>\$ 1,772,967</u>	<u>\$ 19,895,425</u>	
28								
29	Utility Operating Income <sup>2</sup>	\$ 1,203,016	\$ 971,891	\$ 716,066	\$ 1,203,016		\$ 1,203,016	Sch 1
30								
31	Return on Rate Base (RORB)	6.07%	5.38%	4.31%	6.64%		6.05%	

1) Pro Forma Adjustment adjusts 13 month average of Plant in Service to 3/31/2008 levels.  
2) Utility operating income is a rolling 12 month figure.

DW 08-098 Aquarion NH  
Testimony of Traun and Eckberg  
Attachment 33

DEPRECIATION EXPENSE

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1W  
Page 1 of 1

Line No.	Description	NH PUC ACCT	Test Year Plant	Retirements and Transfers	Pro Forma Additions	Pro Forma Utility Plant	Present Annual Rate	Depreciation Amount	Proposed Annual Rate	Pro Forma Depreciation Amount
1										
2	Organization	101301	\$ 17,700			\$ 17,700	0.00%	-	0.00%	-
3	Miscellaneous Intangible Plant	101303	20,727			20,727	5.00%	\$ 1,036	3.33%	691
4	Source Land and Land Rights	101310	460,591			460,591	0.00%	-	0.00%	-
5	Source Structures and Improvements	101311	611,459			611,459	1.60%	9,783	2.75%	16,815
6	Collecting and Impounding Reservoirs	101312	-			-	0.00%	-	0.00%	-
7	Wells and Springs	101314	2,775,032			2,775,032	1.45%	40,238	3.67%	101,751
8	Supply Mains	101316	182,935			182,935	1.36%	2,488	1.20%	2,195
9	Other Water Source Plant	101317	1,499,100			1,499,100	1.33%	19,938	5.00%	74,955
10	Pumping Land and Land Rights	101320	709			709	0.00%	-	0.00%	-
11	Pumping Structures and Improvements	101321	1,275,322			1,275,322	2.47%	31,500	2.75%	35,071
12	Electric Pumping Equipment	101325	880,695			880,695	4.28%	37,694	3.43%	30,195
13	Diesel Pumping Equipment	101326	32,297			32,297	5.00%	1,615	3.67%	1,184
14	Other Pumping Equipment	101328	34,764			34,764	4.08%	1,418	4.40%	1,530
15	Treatment Structures and Improvements	101331	176,164			176,164	2.47%	4,351	2.75%	4,845
16	Treatment Equipment	101332	282,411			282,411	6.56%	18,526	3.67%	10,355
17	T&D Land and Land Rights	101340	154,202			154,202	0.00%	-	0.00%	-
18	T&D Structures and Improvements	101341	289,440			289,440	2.04%	5,905	2.75%	7,960
19	Distribution Reservoirs and Standpipes	101342	1,272,926			1,272,926	2.04%	25,968	2.00%	25,459
20	Transmission and Distribution Mains	101343	13,946,093			13,946,093	1.36%	189,667	1.20%	167,353
21	Services	101345	4,464,538			4,464,538	2.00%	89,291	1.84%	81,991
22	Meters	101346	740,054			740,054	5.94%	43,959	3.80%	28,122
23	Meter Installations	101347	243,519			243,519	1.54%	3,750	3.80%	9,254
24	Hydrants	101348	592,797			592,797	2.27%	13,456	2.40%	14,227
25	Other T&D Plant	101349	98,704			98,704	1.33%	1,313	5.00%	4,935
26	General Structures and Improvements	101390	590,808			590,808	2.99%	17,665	3.14%	18,568
27	Office Furniture and Equipment	101391	80,398			80,398	3.09%	2,484	7.69%	6,184
28	Computer Equipment - Hardware	101391H	522,662			522,662	12.65%	66,117	20.00%	104,532
29	Computer Equipment - Software	101391S	45,897			45,897	12.65%	5,806	20.00%	9,179
30	Transportation Equipment	101392	292,784			292,784	10.00%	29,278	11.25%	32,938
31	Stores Equipment	101393	17,891			17,891	2.87%	513	5.00%	895
32	Tools, Shop, and Garage Equipment	101394	142,771			142,771	3.46%	4,940	5.00%	7,139
33	Laboratory Equipment	101395	23,907			23,907	6.67%	1,595	6.67%	1,594
34	Power Operated Equipment	101396	162,947			162,947	4.73%	7,707	6.67%	10,863
35	Communications Equipment	101397	286,606			286,606	10.00%	28,661	10.00%	28,661
36	Miscellaneous Equipment	101398	26,780			26,780	6.28%	1,682	6.67%	1,785
37										
38			\$ 32,245,628	-	-	\$ 32,245,628		\$ 708,345	Subtotal	\$ 841,226
39										
40										
41										
42										\$ 841,226
43										97,396
44										\$ 938,622
45										823,706
46										\$ 114,916

DW 08-098 Aquarion NH  
Testimony of Traum and Eckberg  
Attachment 34

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-36

Date of Response: January 9, 2009  
Witness: T. Dixon

---

REQUEST: Is the \$114,916 depreciation expenses proforma on Schedule 1W based upon the results of the Mr. Shutt's Table 5-2 and the use of asset values at the end of the test year? If not, please explain how this figure was derived. If yes, please quantify what amount relates solely to Mr. Shutt's study.

RESPONSE: Yes. Table 5-2 calculates a "Proposed Annual Accrual Amount" and a "Proposed Annual Reserve Shortfall Amortization". The sum of these columns is equivalent to the Pro Forma Depreciation expense sought in this case of \$938,622. This figure when compared to the test year expense produces an adjustment of \$114,916.

# STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: June 2, 2009  
AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor  
Robyn Descoteau, Examiner  
Karen Moran, Examiner  
James Schuler, Examiner

SUBJECT: Aquarion Water Company of New Hampshire  
DW 08-098  
FINAL Audit Report

TO: Mark Naylor, Director, Gas/Water Division



## Introduction

Aquarion Water Company of New Hampshire (Company, AWCNH) is a wholly-owned subsidiary of Aquarion Water Company (AWC), which is an intermediate holding company of Aquarion Company (Aquarion). Aquarion is a wholly-owned subsidiary of Aquarion Holdings LLC, which is a wholly-owned subsidiary of Macquarie Utilities, Inc. (MUI). MUI purchased the Aquarion companies from Kelda Group, Inc. (Kelda) on April 30, 2007. AWCNH provides water service to approximately 8,770 customers in three communities located in New Hampshire.

On August 29, 2008 AWCNH made a filing with the New Hampshire Public Utilities Commission, (PUC, Commission) for an initial increase in rates of 21.08%. In addition, the Company seeks a step adjustment for a significant plant addition currently under construction.

Upon reviewing the filing Mr. Mark Naylor, Director of Water and Gas at the PUC instructed the Audit Staff (Audit) to perform a review of the Company's financials for test year ending 3/31/08.

Our contact person was Ms Linda Discepolo, Director of Rates and Regulation at Aquarion Water Company of Connecticut (AWC-CT). Audit thanks Ms Discepolo for responding to our many audit requests (A/R).

## Outside Audit

The firm of Dworken, Hillman, LaMorte & Sterczala, P.C. located in Shelton, CT audited the balance sheets, related statements of income, cash flows, and stockholder's equity for AWCNH at 12/31/2007. No year end audit adjustments were required.

\$2,157,807

There was no activity noted during the test year in accounts 283004, 283005, or 283015. Activity within the Current Year Deferred account 283009 decreased from \$2,000 credit balance to \$25,000 debit balance. Offsetting entries were noted in the Federal Income Tax Deferred account 410001 and State Income Tax Deferred account 410002.

Miscellaneous Deferred Credit, Account 282001

Deferred Income Taxes, Flow-through Depreciation in account 282001 had a credit balance of \$465,630 throughout the test year, with no activity. The amount was traced to the filing schedule 2F, as part of the Deferrals.

Payroll Taxes, Accounts 408001, 408011, 408500

Account 408001 reflects weekly expense postings, which for the test year sum to \$42,573. Audit verified one debit entry in this account to offsetting entries in the Cash Payroll clearing account 131102, the United Way 242009, Employee 401k 242010, 401k Loan Payments 242014, Flex Spending Health 242015, Payroll Expense 920000, Thrift 926202, Medical Contribution 926207, Auto Allowance 926209, and Life Insurance 926212.

Account 408011, PR OH-PR Taxes, is a flow through of allocated time charged by workorder. For the test year, the total expense was \$13,639.

Account 408500 PR OH – PR Taxes reflects those taxes which were “cleared to capital” and for the test year reflected a credit balance \$5,021.

State Income Taxes, Accounts 409002, 410002, 410004

The filing schedule 1AA reflects total state income tax for the test year of \$80,560. Audit verified this to account 409002, State Income Tax expense \$88,000, 410002 credit to State Income Tax Deferred \$6,000 and a credit to the State Income Tax FAS 109 410004 in the amount of \$1,440.

The calendar year 2007 tax return was filed by the Kelda Group, for the ownership of Aquarion from January 1 through April 30, 2007. The return, on statement 2, reflected a credit of \$4,000, which Audit traced to a debit posting to account 236002 State Income Tax liability.

The Macquarie Business Enterprise State Income Tax return for the 5/2007 through 12/2007 reflected a net tax of \$8,362 with an extension fee of \$47,500 and an estimated tax paid throughout the year of \$35,000. **The result is an overpayment of \$74,138 which was requested to be applied to the 2008 tax liability.**

STATE INCOME TAXES

Aquarion Water Company of New Hampshire  
Case No. DW 08-098

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1AA  
Page 1 of 1

Line No.		3/31/2008	Adi	Pro Forma	Increase	Proposed
1						
2	Revenue	\$ 5,143,874	\$ (133,960)	\$ 5,009,914	\$ 1,056,070	\$ 6,065,984
3						
4	O&M Expense	\$ 2,372,599	\$ 203,865	\$ 2,576,464	\$ -	\$ 2,576,464
5	Depreciation	823,706	114,916	938,622	-	938,622
6	Other Taxes	368,901	4,084	372,985	-	372,985
7	Interest Expense	707,510	58,498	766,008	-	766,008
8	Net Other Income	(69,486)	14,974	(54,512)	-	(54,512)
9		\$ 4,203,230	\$ 396,338	\$ 4,599,568	\$ -	\$ 4,599,568
10						
11	Pre-Tax Income	940,644	(530,298)	410,346	1,056,070	1,466,416
12						
13	Flowthrough Differences	2,332	-	2,332	-	2,332
14						
15	Taxable Income	\$ 942,976	\$ (530,298)	\$ 412,678	\$ 1,056,070	\$ 1,468,748
16						
17	State Tax Expense (8.5%)	\$ 80,153	\$ (45,075)	\$ 35,078	\$ 89,766	\$ 124,844
18						
19	Tie to Books	407		407		407
20	Net Tax Per Books	\$ 80,560	\$ (45,075)	\$ 35,485	\$ 89,766	\$ 125,251
21						
22						
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24						
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STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DOCKET NO. DW 08-098

DIRECT TESTIMONY  
OF  
LARRY L. BINGAMAN

August 27, 2008

## Testimony of Larry L. Bingaman

1 systematically replacing its aging infrastructure (generally water transmission and  
2 distribution mains and related appurtenances), in a timely and cost-effective  
3 manner. The WICA, which is similar to the Distribution System Improvement  
4 Charge (DSIC) that has been implemented in a number of states, is intended to  
5 increase system reliability, improve service to the customer, and reduce water lost  
6 due to leakage. It is also intended to extend the time period between rate  
7 applications, while avoiding high percentage rate increases and rate shock for the  
8 customer.

9  
10 Q. Please provide the other states that have adopted a similar process.

11 A. The DSIC interim rate mechanism has been adopted in a number of other states  
12 including California, Connecticut, Delaware, Illinois, Mississippi, New York,  
13 Ohio and Pennsylvania.

14  
15 Q. Has the National Association of Regulatory Commissioners (NARUC) taken a  
16 position in regard to this type of surcharge mechanism?

17 A. Yes. On February 24, 1999, NARUC sponsored a resolution whereby they  
18 cosponsored and endorsed the DSIC that was approved by the Pennsylvania  
19 Public Utility Commission and the Pennsylvania legislature as a promising and  
20 unique regulatory approach that encourages the acceleration of needed  
21 remediation of an aging water utility infrastructure.

22  
23 Q. How is the WICA surcharge calculated?

Testimony of Larry L. Bingaman

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The second approach focuses on the capacity of existing infrastructure available to new customers, the cost of which has previously been borne by existing customers, but which is really necessitated by anticipated growth in the system. This approach has been called the “buy-in” approach.

The Company believes that it is more equitable to ask new customers to help pay the cost of these facilities, which to date have been borne by existing customers. Therefore, we are proposing the buy-in approach for the System Development Connection Charge.

The Company has identified a need to upsize water mains and related appurtenances to improve service delivery and fire protection, which would benefit existing customers, but also help accommodate growth of new customers. We have assumed standard industry cost estimates for eight-inch and 12-inch mains and used the differential between the two to estimate the cost of increasing the size of the mains and related appurtenances in the system to better serve new customers.

The “buy-in” approach calculation of the System Development Charge results in a charge of \$779 for per connection. The SDC for larger meter sizes have been increased using standard American Water Works Association ratios. Ms.

## Testimony of Larry L. Bingaman

1 affiliate has successfully employed a Water Balance Plan program for about six  
2 years. The general goal of the program is to offset increases in water use created  
3 by the addition of new customers (e.g., residential, commercial, and industrial  
4 developments) with decreases in the water use of existing customers through  
5 conservation efforts. The proposed Water Balance Plan would require owners of  
6 new developments that come on to the Company's system to either implement  
7 approved conservation measures or pay a fee that is used to fund conservation  
8 programs that are implemented by the Company.

9 The Water Balance Program would apply to all new and expanded water use  
10 developments that are expected to use 100,000 gallons or more per year with the  
11 exception of: (1) residential developments with only a single service connection  
12 and (2) new and/or expanded water use developments that are expected to require  
13 less than 100,000 gallons per year of water. Applicants will have several options  
14 to comply with the Water Balance Program including:

- 15 • **Applicant-Directed Conservation** – Applicant identifies and implements  
16 water conservation activities. These could include retrofitting public  
17 buildings with low flow toilets and other fixtures to offset the projected usage;  
18 lowering a shallow water main(s) to eliminate “bleeding” the water main in  
19 the winter and thus saving water; installing demand reduction measures, such  
20 as independent irrigation systems, decreasing commercial and industrial  
21 consumptive use; or water audits of significant users
- 22 • **Water Banking** - Applicant provides funding for a Water Bank that will be  
23 used by Aquarion to fund conservation efforts. These efforts could include

## Testimony of Larry L. Bingaman

1 such activities as: funding commercial and residential water use audits; paying  
2 for the purchase of rain detection sensors on irrigation systems; or funding a  
3 rebate program to encourage installation by customers of low flow appliances,  
4 etc. We have estimated the cost of the Water Banking option would be a one  
5 cost of \$5.20 per gallon of water consumed per day. For example, at the  
6 exclusion limit of 100,000 gallons per year, or 274 gallons per day, the  
7 required funding amount would be \$1,425.

- 8 • **Supplemental Source of Supply** – Applicant identifies and develops a  
9 supplemental source of supply for Aquarion.

10

11 **V. CUSTOMER SERVICE**

12 **Q.** Please provide an overview of the Company's efforts to maintain and improve the  
13 level of customer service it provides.

14 **A.** Aquarion is committed to continuing to provide its customers with high quality  
15 water and water service in the most cost-efficient manner. Consistent with this  
16 mission, since Aquarion's acquisition of Hampton Water Company in 2002, there  
17 has been a significantly increased commitment to improving the water system and  
18 customer service, while trying to carefully control costs.

19

20 The Company's commitment to customer service cascades from the top down. It  
21 is embodied in Aquarion Company's mission statement, is articulated to  
22 employees and customers in Aquarion's stated customer service philosophy and is

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: December 8, 2008  
Request No.: OCA 1-15

Date of Response: January 9, 2009  
Witness: L. Discepolo

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REQUEST: Please refer to page 13, lines 3-6. Please identify the states that have authorized the implementation of a DSIC.

RESPONSE: To the Company's knowledge, the states that have authorized the implementation of a DSIC are California, Connecticut, Delaware, Illinois, Indiana, Missouri, New York, Ohio and Pennsylvania.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 08-098

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

Data Request Received: March 5, 2009  
Request No.: OCA 2-16

Date of Response: March 26, 2009  
Witness: L. Discepolo

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REQUEST: Referring to the response to OCA 1-15. Please state whether any of the DSIC adjustments known to the Company (see Question 15 above) are authorized explicitly by statute (as opposed to implicitly under a general rate standard such as just and reasonable).

RESPONSE: The states of Pennsylvania and New York have approved DSIC adjustments under a general rate standard. However, Pennsylvania subsequently received legislative approval and amended the appropriate section to the public utility code. The states of Connecticut, Delaware, Illinois, Indiana, Ohio and Missouri had the DSIC authorized by statute. The Company is not familiar with the method of authorization in the state of California.

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DOCKET NO. DW 08-098

DIRECT TESTIMONY

OF

TROY M. DIXON

August 27, 2008

1 uniform across each class, the resulting overall revenue requirement increases are  
2 not entirely uniform.

3

4 Q. Did the Company apply inclining block rates to all metered customers?

5 A. The Company did not apply inclining block rates to industrial customers or  
6 seasonal customers. Regarding industrial customers, the Company is following  
7 the treatment it used in its most recent Massachusetts rate case where inclining  
8 block rates were also implemented, yet not assigned to the Industrial class. The  
9 basic concept here is that industrial usage is fairly steady and not weather  
10 sensitive. As a result, industrial customers are not as susceptible to conservation  
11 as other classes of customer.

12

13 Likewise, the Company chose not to incorporate inclining block rates into the  
14 seasonal rate design. There are really two reasons for this treatment. First and  
15 foremost, seasonal customers are not billed at regular fixed intervals. In general,  
16 the meter is set early in the season but is not read again for billing until the  
17 customer calls to have the meter removed at the end of the season. Therefore,  
18 given the sharp contrast to the regularly read monthly or quarterly billed customer,  
19 the lack of fixed billing intervals makes it difficult to establish an appropriate and  
20 fair consumption level at which conservation rates would initiate. Secondly, the  
21 seasonal volumetric rate as proposed in this case is substantially higher than even  
22 the second tier billing rate for other metered customers. While the seasonal rate is