THE STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DW 12-085

Aquarion Water Company of New Hampshire, Inc.

Temporary and Permanent Rate Proceeding

STAFF'S CLOSING STATEMENT

In accordance with the Commission's directive at hearing on May 24, 2013, Staff of the N.H. Public Utilities Commission (hereinafter, "Staff") submits the following closing statement. For the reasons set forth below, Staff requests that the Commission approve the Partial Settlement.

Staff recommends the Commission approve the proposed revenue requirement contained in the Partial Settlement since, aside from the cost of equity, Staff is of the opinion that it is just and reasonable. Staff testified that the plant in rate base has been audited and, in Staff's opinion, the rate base is prudent, used, and useful. As identified at hearing, the specific cost of equity figure used in the weighted average cost of capital is a disputed issue. The debt component is not in dispute and Aquarion Water Company of New Hampshire, Inc. (Aquarion) accepts the schedules and associated adjustments which are attached to Mr. Jayson Laflamme's testimony. See Exhibit 10.

Consistent with Mr. Mark Naylor's testimony, marked as Exhibit 9, Staff supports the continuation of the WICA pilot so long as the cost of equity is reduced to account for the reduction of risk provided by WICA. As a placeholder only, Mr. Naylor included in his testimony a cost of equity figure of 9.25 which was also carried through Mr. Laflamme's testimony and schedules. Staff did not file testimony making a recommendation on a specific cost of equity to capture that reduction in risk.

Staff believes there is value in the WICA but Staff believes a longer period of review is needed before it can assess whether the goals of the program are being achieved. Staff believes the WICA has accelerated the replacement of aging infrastructure. Aquarion provided discovery responses attached to Mr. Naylor's testimony documenting the replaced infrastructure. Staff, however, is not certain that the WICA mechanism will extend the time between rate cases. As to rate shock, Staff believes it reduces the percent increase in any given rate case which is a benefit to customers but customers see more frequent incremental increases. Staff will continue to assess whether the smaller but more frequent rate increases are more beneficial to customers than not having the WICA program. Staff also believes the step adjustment called for in the Partial Settlement is reasonable and appropriate, as a way to "zero out" the current WICA surcharge and include those revenues related to the 2012 WICA plant additions into base tariff rates. The calculation of the step adjustment will use the cost of capital determined by the Commission in this docket, and Aquarion will provide its calculations to the Commission for review at the time it submits its compliance tariff. With respect to water loss, as Mr. Carl McMorran testified, it is too soon to tell how much the WICA program has impacted water loss. Staff notes that the WICA program has resulted in the replacement of only a portion of the water system.

With respect to rate design, Staff recommends the percent increase in the proposed revenue requirement be applied as explained by Mr. Naylor's oral testimony.

With respect to the cost of equity, the primary method used by this Commission to estimate the expected return on equity has been the Discounted Cash Flow (DCF) model. See Order No. 24,265 (2004). There are other valid methods as well and this Commission has recognized that these other methods may be used as a test of reasonableness to compare to the DCF result.

In this case, Mr. Parcell has used the DCF; Capital Asset Pricing Model (CAPM); and Comparable Earnings methods. Although he weighted each method to come up with a 8.3 recommendation, it is still possible to use the results of those methods to test the DCF outcome.

Mr. Parcell's midpoint of the DCF is 9.3%. Ms. Ahern's "correction" of Mr. Parcell's DCF (prior to adding a business risk adjustment) produces a midpoint of 9.43%. The

Commission has historically not authorized a business risk adjustment. Mr. Parcell's reasoning for not including one is the fact that many of these "small" utilities do not raise capital individually but rather do it through a consolidated entity.

Using Comparable Earnings to test the reasonableness of the DCF, Mr. Parcell has a midpoint of 9.5%. Mr. Parcell testified that his range as compared to authorized outcomes in cases he has testified in tend to be lower, and in applying that to the instant case, then Mr. Parcell's DCF might be brought up from 9.3. Mr. Parcell's CAPM is 6.1% which is not near the DCF and Ms. Ahern recommends the Commission reject the Comparable Earnings results.

For illustration purposes for the Partial Settlement, Staff and the settling parties ran a revenue requirement using a 9.75 cost of equity. If the Commission were to accept the midpoints of Mr. Parcell and Ms. Ahern's DCF's, then the revenue requirement in the Partial Settlement would be lower than shown.

In conclusion, Staff respectfully recommends the Commission approve the Partial Settlement.

Respectfully Submitted,

Date: June 7, 2013

Marcia A Brown

Marcia A. Brown, Staff Attorney
N.H. Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301
(603) 271-2431

CERTIFICATE OF SERVICE

I hereby certify that, on the date written below, I caused the attached Closing Statement to be hand delivered or sent electronically pursuant to Puc § 203.02 and Puc § 203.11.

Marcia A Brown

Date: June 7, 2013

Marcia A. Brown, Staff Attorney