Recoupment Methodology Narrative

The Company has computed the temporary rate recoupment surcharge for each of the respective classes of customers. By examining the bills with services rendered during the temporary rate period, the Company is effectively able to determine the service rendered periods for which recovery at permanent rate levels is allowed. From this data, the charges can be carved into three categories:

1. Those charges ineligible for recoupment where services rendered were prior to 07/01/2012.

2. Those charges eligible for recoupment at the full permanent increase for services rendered between 07/01/2012 and 10/01/2012.

3. Those charges eligible for recoupment for the difference between the permanent increase and the temp rate increase where service was rendered between 10/01/2012 and 06/30/2013.

With these distinctions in mind, the Company can then determine the amount of revenues that would have been collected under permanent rates and then compare those revenues to those actually collected under temporary rates. These very detailed calculations are explained in Exhibits 3-5 and their respective supporting Schedules.

Once the recoupment amounts are calculated, a determination of the actual surcharge rates must be made. Consistent with Order 24,670 in DW 05-119 and Order 25,019 in DW 08-098, Aquarion proposes to recover the amounts via a fixed surcharge dependent upon the meter size of the respective customer.

Schedule 1 – Summary & Rates

Schedule 1 shows the details of this process. For each of the customer classes, the Company evaluates the 06/30/2013 customer count and devises allocation percentages based on the annualized fixed revenues to be achieved from each meter size within the customer class. These allocation percentages are then applied to the overall recoupment amount for each of the classes. This derives the amount to be recovered at the meter size level. The amount is then divided by the customer count to determine the appropriate annual, quarterly and/or monthly surcharges required to ensure the appropriate collections. This process is utilized for the fire and metered classifications of customer.

Schedule 2: Fire Service Recoupment Calculation

The schedule identifies all fire service revenues in the temporary rate period and calculates the additional revenue that would have been billed at the permanent rates. As fire service charges are prospective, all billing days in the temporary rate period are eligible for recoupment. Below is a summary of the calculations.

Column A: Billing dates for services rendered during temporary rate period (07/01/2012 to 06/30/2013).

Column B: Total billed revenues for the respective billing dates. Billed revenues in 2013 have been reduced for the incremental WICA surcharge resulting from DW 12-325.

Column C: For fire service customers, where billing is prospective, service start date is equal to the billing date.

Columns D & E: For the 91 and 182 day billing periods (private and public fire service respectively), the service rendered days for usage are separated between the number of days prior to the 07/01/2012 effective date of permanent rates and the number of days subsequent. The days subsequent are eligible for recoupment while the days prior are not.

Columns F & G: For the days eligible for recoupment (Column E), these columns provide further separation to denote the days that were before or after the Oct 1 date where the temporary increase changed from 0% to 9%.

Columns H & I: Based upon the number of days and the percentage increase for temporary rates, the Company is able to algebraically derive the actual daily revenue figure for both of the respective periods.

Columns J-M: Based on the number of days (Columns D, F, G) and the average daily rates (columns H & I), the Company can segregate the daily billed revenues into the three respective periods. These columns break apart the revenues as they were billed into their respective eligibilities for recoupment.

Ineligible (J) = D x H

Eligible for Recoupment at Full Permanent Difference (K) = F x H

Eligible for Recoupment at Full Permanent less Temp Increase Difference (L) = G x I

(Proof of the accuracy of this calculation is evidenced by Column B equating to Column M). These columns therefore separate the revenues as actually billed to customers in the temporary rate period based upon their eligibility for temporary rate recoupment.

Columns N – Q: Utilizing the revenue allocation in J-M, columns N-Q calculate what the revenues for each of the periods would have been had the permanent rates been in effect.

Column N – These revenues are not eligible for any recoupment, therefore N = J.

Column O – These revenues are eligible for the full permanent increase since a 0% temp increase was in place for the July 1 through September 30 timeframe. Therefore O = K + 15.54%.

Column P – These revenues are eligible for an increase based on the difference between the permanent increase and the temporary increase. P = L + (15.54% - 9.00%).

Column R: This column represents the overall difference between the revenues as billed and the revenues as they would have billed with permanent rates in effect for the temporary rate period. Column Q – M. This represents the total recoupment for each respective day of fire service.

Schedule 3: Metered Water Service (non-seasonal)

The schedule identifies all seasonal and non-seasonal metered water service and fixed charges with services rendered in the temporary rate period, and calculates the additional revenue that would have been billed at the permanent rates. The approach is similar to that used on Exhibit 3 for the fire portion of the recoupment. Below is a summary of the calculations.

Column A: Billing dates during temporary rate period (07/01/12 to 06/30/2013).

Column B: Usage charge revenues for the respective billing dates. Billed revenues in 2013 have been reduced for the incremental WICA surcharge resulting from DW 12-325.

Column C: Service charge revenues for the respective billing dates. Billed revenues in 2013 have been reduced for the incremental WICA surcharge resulting from DW 12-325.

Column D: Total revenues for the respective billing dates.

Column E: Based on billing dates, the "Service Start Date" is effectively the first day of services rendered in the billing period for usage charges. For quarterly billings, a 91 day billing period is assumed, for monthly billings, a 30 day billing period is assumed and for semi-annual billings, a 182 day period is assumed.

Columns F & G: For the billing period between the service start date and the billing date, the service rendered days for usage are separated between the number of days prior to the 07/01/2012 effective date of permanent rates and the number of days subsequent. The days subsequent are eligible for recoupment while the days prior are not.

Columns H & I: For the days eligible for recoupment (Column G), these columns provide further separation to denote the days that were before or after the Oct. 1 date where the temporary increase changed from 0% to 8%.

Columns J & K: Based upon the number of days and the percentage increase for temporary rates, the Company is able to algebraically derive the actual daily revenue figure for both of the respective periods.

Columns L-O: Based on the number of days (Columns F, H, I) and the average daily rates (columns J & K), the Company can segregate the daily billed usage revenues into the three respective periods. These columns break apart the usage revenues as they were billed into their respective eligibilities for recoupment.

> Ineligible (L) = F x J
>
> Eligible for Recoupment at Full Permanent Difference (M) = H x J
>
> Eligible for Recoupment at Full Permanent less Temp Increase Difference (N) = I x K

(Proof of the accuracy of this calculation is evidenced by Column B equating to Column O). These columns therefore separate the revenues as actually billed to customers in the temporary rate period based upon their eligibility for temporary rate recoupment.

Columns P – S: Utilizing the revenue allocation in L-O, columns P-S calculate what the usage revenues for each of the periods would have been had the permanent rates been in effect.

> Column P – These revenues are not eligible for any recoupment, therefore P = L.
>
> Column Q – These revenues are eligible for the full permanent increase since a 0% temp increase was in place for the July 1 through September 30 timeframe. Therefore Q = M + 15.54%.
>
> Column R – These revenues are eligible for an increase based on the difference between the permanent increase and the temporary increase. R = N + (15.54% - 9.0%).

Column T: This column represents the overall difference between the volumetric revenues as billed and the volumetric revenues as they would have billed with permanent rates in effect for the temporary rate period. Column S – O.

Column U: Based on billing dates, the "Service Start Date" is effectively the first day of services rendered in the billing period for <u>service charges</u>. For quarterly billings, a 91 day billing period is assumed, for monthly billings, a 30 day billing period is assumed and for semi-annual billings, a 182 day period is assumed. Similar to fire charges, where billing is prospective, service start date is equal to the billing date.

The descriptions of columns V through AJ below are consistent with the descriptions of columns F through T above.

Columns V & W: For the billing period between the service start date and the billing date, the service rendered days for service charges are separated between the number of days prior to the 07/01/2012 effective date of permanent rates and the number of days subsequent. The days subsequent are eligible for recoupment while the days prior are not.

Columns X & Y: For the days eligible for recoupment (Column G), these columns provide further separation to denote the days that were before or after the Oct. 1 date where the temporary increase changed from 0% to 8%.

Columns Z & AA: Based upon the number of days and the percentage increase for temporary rates, the Company is able to algebraically derive the actual daily revenue figure for both of the respective periods.

Columns AB-AE: Based on the number of days (Columns F, H, I) and the average daily rates (columns J & K), the Company can segregate the daily billed service charge revenues into the three respective periods. These columns break apart the service charge revenues as they were billed into their respective eligibilities for recoupment.

> Ineligible (AB) = V x Z
>
> Eligible for Recoupment at Full Permanent Difference (AC) = X x Z
>
> Eligible for Recoupment at Full Permanent less Temp Increase Difference (AD) = Y x AA

(Proof of the accuracy of this calculation is evidenced by Column C equating to Column AE). These columns therefore separate the revenues as actually billed to customers in the temporary rate period based upon their eligibility for temporary rate recoupment.

Columns AF-AI: Utilizing the revenue allocation in AB-AE, columns AF-AI calculate what the service charge revenues for each of the periods would have been had the permanent rates been in effect.

> Column AF – These revenues are not eligible for any recoupment, therefore AF = AB.
>
> Column AG – These revenues are eligible for the full permanent increase since a 0% temp increase was in place for the July 1 through September 30 timeframe. Therefore AG = AC + 15.54%.

Column AH – These revenues are eligible for an increase based on the difference between the permanent increase and the temporary increase. AH = AD + (15.54% - 9.0%).

Column AJ: This column represents the overall difference between the service charge revenues as billed and the service charge revenues as they would have billed with permanent rates in effect for the temporary rate period.

Column AK: Total non-seasonal recoupment from metered customers (Column T + AJ).

Schedule 4: Metered Water Service (seasonal)

The schedule is identical to Exhibit 4 except that it pertains to Seasonal Customers.