

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DW 16-____

2017 WATER INFRASTRUCTURE
AND CONSERVATION ADJUSTMENT FILING

DIRECT TESTIMONY OF

TROY M. DIXON

OCTOBER 14, 2016

1 **Q. Mr. Dixon, please state your name and business address.**

2 A. My name is Troy M. Dixon, and my business address is 600 Lindley Street,
3 Bridgeport, Connecticut 06606.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Aquarion Water Company of Connecticut, Inc. (“Aquarion
6 CT”) as Director of Rates and Regulation.

7 **Q. Please describe your educational background.**

8 A. I have a Bachelor’s Degree in economics and accounting from Holy Cross in
9 Worcester, Massachusetts.

10 **Q. Please describe your business/professional background.**

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

18 **Q. Have you previously testified before the New Hampshire Public Utilities
19 Commission (“Commission”)?**

20 A. I have provided live testimony before the Commission and submitted written pre-
21 filed testimony in Docket Nos. DW 08-098 and DW 12-085, the Company’s most

1 recent rate cases, and in Docket Nos. DW 10-293, DW 11-238, DW 12-325, DW
2 13-314 and DW 14-300 the Company's previous Water Infrastructure and
3 Conservation Adjustment ("WICA") filings.

4 **Q. What is the purpose of your testimony?**

5 A. My testimony addresses the proposed surcharge related to the revenue
6 requirement for completed WICA-eligible projects placed in service from October
7 1, 2015 to September 30, 2016.

8 **Q. Please summarize the basis for the Company's WICA surcharge filing in this**
9 **case.**

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

18 The Company agrees to file the final project costs, supporting
19 documentation and proposed WICA adjustment for completed projects
20 previously determined to be WICA eligible. . . . No project shall be
21 included for recovery in the WICA unless the project is used and useful in
22 providing service to customers or will be used and useful by the effective
23 date of the WICA.

24

1 Attachment CM-1 to Carl McMorran's direct testimony identifies Aquarion NH's
2 completed 2016 WICA projects and their respective costs. The WICA surcharge
3 and components are detailed in Attachment TD-1 to my testimony. The WICA
4 surcharge incorporates depreciation, property tax expense, income tax expense,
5 and associated rate of return on completed projects, as contemplated by the
6 approved WICA program

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

8 A. The projects in Attachment CM-1 shown as completed as of September 30, 2016
9 produce a surcharge of 5.72% to be applied to customers' existing water service
10 billings. This is an increase of 1.73% to the 3.99% surcharge previously allowed
11 by Order No. 25,857. The surcharge is applied to all classes of customers. The
12 WICA mechanism approved by the Commission has an annual cap of 5% and an
13 aggregate cap of 7.5% between rate cases. The proposed 2017 surcharge does not
14 exceed either of these two caps. This is the Company's third WICA filing since
15 its last general rate case. Consistent with the settlement in Docket No. DW 08-
16 098 and as modified in Docket No. DW 12-325, the Company is seeking
17 authorization to implement this surcharge on a service-rendered basis effective as
18 of January 1, 2017.

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

20 A. Attachment TD-1 consists of three pages detailing the calculation of the proposed
21 5.72% surcharge.

1 **Page One – Summary Calculation:** This schedule multiplies the September 30,
2 2016 used and useful eligible WICA project investment totals, net of the first
3 year’s accumulated depreciation, by the overall rate of return authorized by the
4 Commission in Docket No. DW 12-325. Additions to this amount are made to
5 account for: (1) an income tax gross-up on the equity portion of the eligible rate
6 base investment, (2) depreciation expense, and (3) property taxes reflecting nine
7 months of expense for utility plant additions placed in service between October 1,
8 2015 and September 30, 2016, and twelve months of expense for those items
9 placed in service and recognized as part of Docket No. DW 15-476. These
10 components yield a total annual WICA-related revenue requirement of \$396,712
11 since the Company’s last general rate case. To determine the WICA surcharge
12 necessary to obtain this level of revenue, the amount is divided by the last
13 authorized water service revenues (i.e., gross revenues net of miscellaneous
14 charges) to arrive at a WICA surcharge of 5.72%.

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

17 **Page Three – Detailed Support:** This page identifies additional detail used in the
18 derivation of property taxes and depreciation and includes: (1) PUC account
19 numbers and depreciation rates, (2) project towns and respective property tax mil
20 rates, (3) total and eligible¹ capital dollars, and (4) the associated total and eligible
21 retirements that decrease the property tax and depreciation calculations.

¹ Eligible capital costs exclude the first \$50,000 of hydrants, services and valves pursuant to the approved settlement in Docket No. DW 12-235. The reduction of \$50,000 is made proportionately to the pool of projects. Retirement values are also reduced accordingly.

1 Depreciation expense is calculated by reducing the eligible project costs by the
2 amount of eligible retirements and multiplying the resultant figure by the
3 Commission-approved depreciation rates. The property tax is calculated
4 similarly: eligible project costs, less retirements and accumulated depreciation,
5 multiplied by the most recent mil rate for the respective town. Property tax
6 expense recognized as part of Docket DW 15-476 has been updated to reflect a
7 full 12 months of expense as well as the most recent mil rates. Also, based on the
8 response to Data Request Staff 3-2 in Docket No. DW 14-300, the Company has
9 added an accumulated depreciation column to page 3 to calculate the return on
10 investment, income tax expense and property tax expense. For the requested
11 property tax amounts for the 2016 projects included in this filing, the figure is
12 then divided by twelve and multiplied by nine to reflect the fact that the Company
13 will only incur property tax expense for the last nine months of the 2017
14 surcharge period. Finally, all information on page three is shown on a project-by-
15 project basis and supports the figures on pages one and two.

16 **Q. Please explain why the completed hydrant and service investments on**
17 **Attachment CM-1 are not included on Attachment TD-1 for the surcharge**
18 **calculation.**

19 A. As per the order in Docket No. DW 12-235, hydrants and services need to exceed
20 \$50,000 in annual capital expenditures before being eligible for WICA surcharge
21 recovery. Referring to Attachment CM-1, the cost for the above referenced
22 capital costs did surpass the \$50,000 threshold. Accordingly the approximately

1 \$36,000 in costs that exceed the threshold have been included on Attachment TD-
2 1.

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

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

6 **Q. Does the Company have detail documentation to support the project costs**
7 **incorporated in this WICA filing?**

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

10 **Q. Please provide calculations showing the current projected WICA surcharges**
11 **anticipated for 2018, 2019, and 2020.**

12 A. Please refer to TD-3 for the anticipated WICA surcharges based on the higher
13 projected costs for 2018, 2019, and 2020 projects. The Company will continue to
14 look at cost reduction alternatives for future WICA projects and will update the
15 information in future filings.

16 **Q. If the Commission approves the Company's filing as proposed, will**
17 **customers continue to receive a credit from the tax benefit approved in**
18 **Docket No. DW 14-075?**

19 A. In its Order No. 25,692 in Docket No. DW 14-075, the Commission approved a
20 credit to customers over a three-year period for certain tax benefits resulting from
21 a change in tax regulations that allowed Aquarion NH to expense certain

1 investments that had previously been capitalized for Federal tax purposes. The
2 credit to customers in the amount of 4% significantly offsets the proposed 2017
3 WICA surcharge of 5.72%. This will result in a net surcharge of only 1.72% as
4 compared to what customers would have otherwise paid.

5 **Q. What is the impact of the proposed WICA surcharge to the average**
6 **residential customers?**

7 A. The typical residential customer using 53,300 gallons of water per year currently
8 pays \$127.60 quarterly under existing rates. A WICA surcharge of 5.72% equates
9 to an increased cost per customer of \$7.29 per quarter, which along with the credit
10 of 4% would result in an increased cost of \$2.19 per quarter for such a customer,
11 or \$0.73 per month.

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

13 A. Yes.