

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 08-098**

**AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.**

**Petition for Rate Increase**

**SETTLEMENT AGREEMENT – PERMANENT RATES**

**I. INTRODUCTION**

This Agreement is entered into this 10th day of July, 2009, between Aquarion Water Company of New Hampshire, Inc. (Aquarion or Company), the Staff (Staff) of the New Hampshire Public Utilities Commission (Commission), the Office of Consumer Advocate (OCA) and the Town of North Hampton (North Hampton) with the intent of resolving all issues in this proceeding. Aquarion, Staff, OCA and North Hampton are referred to collectively in this Agreement as the Settling Parties.

**II. TERMS OF AGREEMENT**

The Settling Parties have reached agreement on all issues as specified below.

**A. Revenue Requirement; Rate Base; Rate of Return; Capital Structure**

The Settling Parties agree that the Commission should authorize a revenue requirement of \$5,883,758 for Aquarion based on a pro forma test year rate base of \$19,599,850, operating expenses of \$2,577,137 and an overall rate of return of 7.72%. The overall rate of return is based on a cost of equity of 9.75%, a cost of debt of 6.26% and a capital structure of 58.2% debt and 41.8% equity. The revenue requirement agreed to by the Settling Parties results in an increase of \$873,844, or 17.44%, over pro forma test year operating revenues of \$5,009,914. (See schedules included as Attachment A.)

DW 08-098 – Aquarion Water Company of New Hampshire, Inc.  
Settlement Agreement

The Settling Parties agree that the foregoing revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement pending before the Commission for purpose of permanent rates, including allowed overall rate of return, return on equity, capital structure, *pro forma* adjustments, capital additions to rate base, and operating expenses. As the sums expressed above are the result of compromise and settlement, they are liquidations of all adjusted net operating income requirement and revenue requirement issues. The Settling Parties agree that the revenue requirement recommended to the Commission in this Agreement results in permanent rates for Aquarion's customers that are just and reasonable. The permanent rate increase described in this Section II.A. shall be reconcilable to the first effective date of temporary rates in this case, in accordance with Section II.F below.

**B. Step Adjustment for Capital Additions**

The Settling Parties agree that, in addition to the rate increase set forth in Section II.A., Aquarion should be authorized to implement a further increase in permanent rates of \$210,854 in annual revenues, effective as of the date of the Commission order approving this Agreement, which increase shall not be reconcilable for the period during which temporary rates were in effect and shall be recovered from all customer classes on an equiproportional basis. This step increase is to recover the costs associated with the \$1,549,874 addition to rate base as a result of Aquarion's Mill Road tank project. See schedules included as Attachment B.

**C. Depreciation**

Aquarion agrees to use amortization accounting for the un-depreciated balance in Property Account 317, and to amortize such balance over a twenty year period. The balance in Account 317 is \$1,434,736, resulting in an annual amortization expense of \$71,737.

**D. Connection Fee**

The Settling Parties agree that the Company should be authorized to increase to \$44.00 the charge it levies for connecting service pursuant to Section 28 of its tariff. In designing rates, the additional revenues generated from this increased charge (\$26,709) shall be applied to reduce the revenues required to be collected from the Company's public fire service customers.

**E. Rate Design**

The Settling Parties agree for purposes of this case to modify the public fire service allocations set forth in the Company's cost of service study filed in the Company's previous rate case, DW 05-119, by adjusting the allocation factors for fire service from 75% to 70% of the full application of fire demands, thereby reducing the overall revenue requirement associated with the public fire service customer class. Applying this new revenue requirement allocation to the revenue requirement provided for in this Agreement results in an overall permanent rate increase of 14.4% for the public fire service customer class. The 14.4% increase to public fire revenues shall be further reduced to an increase of 9.99% as a result of the application of the additional connection fee revenues provided for in Section II.D. above. The Settling Parties further agree that the remainder of the revenue deficiency shall be collected by increasing the rates of all other customer classes on an equiproportional basis. The resulting rates and average rate impacts by

customer class are set forth on page 1 of Attachment A and page 1 of Attachment B (reflecting the step increase).

**F. Effective Date for Permanent Rates and Step Increase and Recoupment**

The permanent rate increase agreed to in Section II.A. shall be effective for all service rendered on and after December 15, 2008, the first effective date of temporary rates, in accordance with Order No. 24,942. In order to reconcile the difference between temporary rates and permanent rates, the Settling Parties agree that the Company should be authorized to implement a surcharge designed to collect, over a twelve month period, an amount equal to the difference between the revenues the Company would have collected had the agreed upon level of permanent rates been in effect for service rendered on and after December 15, 2008 and the actual revenues collected at the temporary rate levels actually in effect. Upon the issuance of a final order in this proceeding, Aquarion agrees to submit its calculation of the temporary – permanent rate recoupment and its surcharge recommendation for Commission review. This equal percentage surcharge shall be calculated and reflected as a separate item on all customer bills. The step adjustment set forth in Section II.B. shall not be reconciled for the period when temporary rates were in effect.

**G. Rate Case Expense Surcharge**

The Settling Parties agree that Aquarion should be allowed to recoup its reasonable and prudent rate case expenses for this docket through a surcharge, which shall be included with the temporary rate reconciliation surcharge described in Section II.F. Rate case expense may include, but shall not be limited to, Aquarion's legal expenses and consultant expenses,

incremental administrative expenses such as copying and delivery charges, and incremental charges from the Company's affiliates necessary to prepare and conduct the rate case. Aquarion agrees to submit its final rate case expense request to Staff and the OCA for review and recommendation to the Commission.

Upon receipt of the Commission's final order, the Company agrees to file a compliance tariff supplement including the approved surcharge relating to recoupment of the difference between the level of temporary rates and permanent rates and the recovery of rate case expenses. The Company agrees to provide a copy of the proposed compliance tariff supplement to the OCA for its review and recommendation.

**H. Water Infrastructure and Conservation Adjustment Charge (WICA) Pilot Program**

The Settling Parties agree that the Company's proposal to implement a WICA has merit and should be adopted on a pilot basis as modified herein. The Settling Parties have agreed to implementation of the WICA on the understanding that it may be modified in the future by the Commission, either on its own motion or at the request of Staff or any party, and that because the WICA is to be implemented on a pilot basis only, it is not intended to constitute precedent for a future proceeding involving the Company or any other utility.

Specifically, the Company agrees to file a compliance tariff provision adopting a WICA consistent with the sample tariff pages attached as Attachment C, modified as follows:

1. The Company may make an annual filing, seeking to adjust the WICA.
2. The Company agrees to file a three year projected budget of proposed WICA eligible projects no later than November 1 of each year. Each such budget shall show projects

DW 08-098 – Aquarion Water Company of New Hampshire, Inc.  
Settlement Agreement

broken down into three years. Year 1 projects are those proposed to be constructed in the succeeding twelve month period. Year 2 projects are those proposed to be constructed in the next twelve month period. Year 3 projects are those proposed to be constructed in the twelve months following Year 2. Year 3 projects shall be provided for advisory purposes and discussion. Year 2 projects shall be provided for review and approval by the Commission. Year 1 projects shall be provided for final review and informational purposes. Staff or any party may request a hearing prior to the Commission's granting approval for a project to become eligible for cost recovery through the WICA. The determination as to whether to hold a hearing on the eligibility of any project for WICA cost recovery shall be at the discretion of the Commission.

3. The Company agrees to file the final project costs, supporting documentation and proposed WICA adjustment for completed projects previously determined to be WICA eligible. Such filing shall be at least sixty days prior to the proposed effective date of any proposed rate change. The WICA rate shall become effective on the later of January 1 following the Company's filing with the Commission seeking implementation of a WICA rate change or sixty days after the date of such filing; provided, however, that if the Commission determines that further investigation or consideration of any proposed WICA is needed, it may order that the proposed WICA rate become effective on a temporary basis, in which case the rate shall be subject to reconciliation pending final determination by the Commission. (In such case, reconciliation shall be only for final determination of the costs to be included in the WICA, not for any positive or negative variances in actual revenues collected versus projected revenues.)

DW 08-098 – Aquarion Water Company of New Hampshire, Inc.  
Settlement Agreement

No project shall be included for recovery in the WICA unless the project is used and useful in providing service to customers or will be used and useful by the effective date of the WICA.

4. In the first year in which a WICA is implemented for any given project or projects, the property taxes included for recovery shall be prorated to reflect the portion of the year that the Company will actually be assessed for such increased taxes. The amount of such taxes, if not known based on a tax bill issued by the relevant taxing authority, shall be estimated using the most recently effective tax rate applicable to the property in question. In the second year in which the WICA is in effect for such project(s), the WICA shall be adjusted to reflect a full twelve months of property taxes, based on the most recent actual tax bill for the relevant property. There shall be no reconciliation for the difference between such tax bill and the estimated tax used for the prior year. After the second year that a WICA for a particular project has been in place, there shall be no further adjustment to the charge.

5. Both the annual budget showing proposed WICA eligible projects and the proposed annual WICA rate adjustment filings shall be filed with the Commission, with a copy of such filing to the OCA. Notice of such filings shall be given to the towns in which the Company provides service and as otherwise determined by the Commission.

6. Any WICA rate adjustment shall be applied equiproportionally to all classes of customers.

7. Notwithstanding, the Settling Parties' agreement that implementation of the WICA is on a pilot basis and may be modified or discontinued by the Commission, the inclusion of any project in the WICA shall constitute authorization for the Company to continue to collect

such amount through its rates on a continuing basis without regard to any subsequent decision by the Commission to discontinue or modify the WICA process. The WICA process shall automatically terminate at the time of a final order in the Company's next general rate case, unless it is extended by the Commission in such order or prior to such order.

**I. System Development Charge/Water Balance Plan/Conservation Measures**

The Company's filing in this docket included a number of proposals intended to encourage water conservation. The Company has agreed to withdraw its proposal for a system development charge, a water balance plan and inclining block rates. The Company reserves the right to renew these proposals in any future proceeding. The Settling Parties agree to continue to explore the potential implementation of water conservation measures. The Company has further stated that it intends to work with the municipalities it serves to assist them in developing town ordinances or other means to promote water conservation, including providing data necessary for such purpose, if the municipalities desire such assistance.

**III. CONDITIONS**

This Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition, and if the Commission does not accept said provisions in their entirety, without change or condition, any party hereto, at its sole option exercised within thirty days of such Commission order, may withdraw from this Agreement, in which event it shall be deemed to be null and void and without effect and shall not be relied upon by Staff or any party to this proceeding or by the Commission for any purpose.



DW 08-098 – Aquarion Water Company of New Hampshire, Inc.  
Settlement Agreement

The Commission's acceptance of this Agreement does not constitute continuing approval of, or precedent regarding, any particular principle or issue in this proceeding, but such acceptance does constitute a determination that (as the Settling Parties believe) the adjustments and provisions set forth herein in their totality are just and reasonable and that the revenues contemplated will be just and reasonable under the circumstances.

The Commission's approval of the recommendations in this Agreement shall not constitute a determination or precedent with regard to any specific adjustments, but rather shall constitute only a determination that the income requirement, rates, rate base and rate of return, as specified in Section II.A., and the other provisions of this Agreement, when considered as a whole, are just and reasonable.

The discussions that produced this Agreement have been conducted on the explicit understanding that all offers of settlement relating thereto are and shall be confidential, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in connection with any future proceeding or otherwise.

DW 08-098 – Aquarion Water Company of New Hampshire, Inc.  
Settlement Agreement


IN WITNESS WHEREOF, the Settling Parties have caused this Agreement to be duly  
executed in their respective names by their fully authorized agents.

Aquarion Water Company of New Hampshire, Inc.

By its attorneys

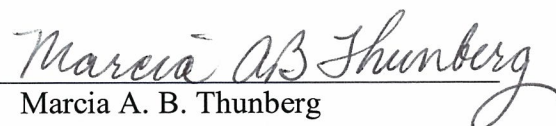
McLane, Graf, Raulerson & Middleton,  
Professional Association

Dated: July 10, 2009

By:   
Steven V. Camerino

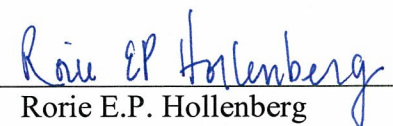
STAFF OF THE NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

Dated: July 10, 2009

By:   
Marcia A. B. Thunberg  
Staff Attorney

OFFICE OF CONSUMER ADVOCATE

Dated: July 10, 2009

By:   
Rorie E.P. Hollenberg  
Staff Attorney

Dated: July 10, 2009

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

By its attorneys

Donahue, Tucker & Ciandella, PLLC

By: \_\_\_\_\_  
John J. Ratigan

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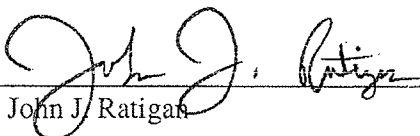
By: \_\_\_\_\_  
Rorie E.P. Hollenberg  
Staff Attorney

Dated: July 10, 2009

TOWN OF NORTH HAMPTON, NEW HAMPSHIRE

By its attorneys

Donahue, Tucker & Ciandella, PLLC

By:  \_\_\_\_\_  
John J. Ratigan

REPORT OF FINAL RATE CHANGES

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

Test Year: Twelve Months Ended 03/31/08  
Page 1 of 1

Line No.	Rate/Class of Service	Effect of Proposed Change	Avg. # of Customers	Est. Annual Revenue		Proposed Change	
				Present Rates	Permanent Rates	Amount	% Change
1							
2							
3	Residential	Increase	7794	\$ 2,769,922	\$ 3,272,320	\$ 502,398	18.14%
4	Commercial	Increase	633	897,965	1,060,694	162,729	18.12%
5	Industrial	Increase	2	19,010	22,469	3,459	18.20%
6	Public Authority	Increase	58	47,015	55,524	8,508	18.10%
7	Seasonal	Increase		347,654	410,469	62,815	18.07%
8	Private Fire	Increase	279	223,467	263,917	40,450	18.10%
9	Public Fire	Increase	4	602,578	662,780	60,202	9.99%
10	Miscellaneous	Increase		102,304	135,834	33,530	32.78%
11	Tie to Schedule A				(248)	(248)	
12			Grand Total	\$ 5,009,914	\$ 5,883,758	\$ 873,844	17.44%
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Signed By: \_\_\_\_\_

Title: \_\_\_\_\_

COMPUTATION OF REVENUE DEFICIENCY (SETTLEMENT)

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

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

Line No.		Actual Test Year	Required Increase	Pro Forma	Settlement
1					
2	1 Rate Base	\$ 18,122,458		\$ 19,895,425	\$ 19,599,850
3					
4	2 Rate of Return	6.64%		8.16%	7.72%
5					
6	3 Income Required [L1 x L2]	\$ 1,203,016	\$ 420,451	\$ 1,623,467	\$ 1,513,108
7					
8	4 Adjusted net Operating Income at Present Rates			995,369	993,390
9					
10					
11	5 Deficiency			\$ 628,098	\$ 519,718
12					
13	6 Tax Effect*			59.48%	59.48%
14					
15	7 Revenue Deficiency [L5 / L6]			\$ 1,056,070	\$ 873,844
16					
17	8 Revenues at Present Rates			\$ 5,009,914	\$ 5,009,914
18					
19	9 Proposed Revenue Increase [L7 / L8]			21.08%	17.44%
20					
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40					

**STATEMENT OF UTILITY OPERATING INCOME (SETTLEMENT)**

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

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 1  
Page 2 of 3

Line No.	Account Description	12 Mos. 3/31/2008	Pro Forma Adjustments	Supp. Sched.	Pro Forma 3/31/2008	Proposed Increase	Proposed 3/31/2008	Settlement Adjustments	Revenue Adjustments	Settlement 3/31/2008
1										
2	Operating Revenues:									
3	Revenues - Water	\$ 5,072,757	\$ (165,147)	A	\$ 4,907,610	\$ 1,056,070	\$ 5,963,681	\$ -	\$ (182,227)	\$ 5,781,454
4	Revenues - Other	71,117	31,187	A	102,304		102,304	-		102,304
5	Net Operating Revenues	\$ 5,143,874	-13396003.27%		\$ 5,009,914	\$ 1,056,070	\$ 6,065,984	\$ -	\$ (182,227)	\$ 5,883,758
6										
7	Operating Expenses									
8	Source of Supply	\$ 42,460	\$ 2,075	B	\$ 44,535		\$ 44,535	\$ -		\$ 44,535
9	Pumping	309,609	18,190	B	327,799		327,799	(14,605)		313,194
10	Treatment	107,030	24,273	B	131,303		131,303	24,223		155,526
11	Transmission & Distribution	445,901	36,331	B	482,232		482,232	-		482,232
12	Customer Accounting	174,464	7,461	B	181,925		181,925	-		181,925
13	Administrative & General	1,293,135	115,535	B	1,408,670		1,408,670	(8,945)		1,399,725
14		\$ 2,372,599	\$ 203,865		\$ 2,576,464	\$ -	\$ 2,576,464	\$ 673	\$ -	\$ 2,577,137
15										
16	Depreciation	\$ 823,706	\$ 114,916	W	\$ 938,622		\$ 938,622	\$ (76,116)		\$ 862,506
17	Taxes Other	368,901	4,084	X,Y	372,985		372,985	78,770		451,755
18		\$ 1,192,607	\$ 119,000		\$ 1,311,607		\$ 1,311,607	\$ 2,654	\$ -	\$ 1,314,261
19										
20	Total Operating expenses	\$ 3,565,206	\$ 322,865		\$ 3,888,071	\$ -	\$ 3,888,071	\$ 3,327	\$ -	\$ 3,891,398
21										
22	Operating Income	\$ 1,578,668	\$ (456,825)		\$ 1,121,843	\$ 1,056,070	\$ 2,177,913	\$ (3,327)	\$ (182,227)	\$ 1,992,359
23										
24	Other income & Expense	(60,321)	14,974	-	(45,347)	-	(45,347)	-		(45,347)
25										
26										
27	PBIT	\$ 1,638,989	\$ (471,799)		\$ 1,167,190	\$ 1,056,070	\$ 2,223,260	\$ (3,327)	\$ (182,227)	\$ 2,037,706
28										
29	Current Income Tax - State	\$ 88,000	\$ (45,075)	AA	\$ 42,925	\$ 89,766	\$ 132,691	\$ (283)	\$ (15,489)	\$ 116,919
30	Current Income Tax - Federal	370,249	(219,077)	BB	151,172	338,207	489,379	(1,066)	(58,358)	429,955
31	Deferred Income Tax - State	(7,440)			(7,440)		(7,440)			(7,440)
32	Deferred Income Tax - Federal	(11,122)			(11,122)		(11,122)			(11,122)
33	Income Tax Allocated to Non-Utility Inc/Exp	(3,714)	-		(3,714)	-	(3,714)	-		(3,714)
34										
35	Utility Operating Income	\$ 1,203,016	\$ (207,647)		\$ 995,369	628,098	\$ 1,623,467	\$ (1,979)	\$ (108,379)	\$ 1,513,108
36										
37										
38										
39										
40										

SUMMARY OF PRO FORMA ADJUSTMENTS TO O&M EXPENSE(SETTLEMENT)

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		Detail on Schedule	Source of Supply	Pumping	Treatment	Transmission & Distribution	Customer Accounting	Administrative & General	Other Income	Total Amount								
No.	Adjustment Title																	
1																		
2	Purchased Power - Gas/Oil Update			\$	(1,909)				\$	(1,909)								
3																		
4	Update of Chemical Pricing				24,223					24,223								
5																		
6	Reduction of Wages based on data responses							(18,861)		(18,861)								
7																		
8	Update of medical costs							28,466		28,466								
9																		
10	Update executive benefits based on data responses							(1,350)		(1,350)								
11																		
12	Revision of employee bonus expense							(9,762)		(9,762)								
13																		
14	Correction of IT labor costs							(438)		(438)								
15																		
16	Eliminate NAWC dues							(903)		(903)								
17																		
18	Correction of mis-postings							(1,280)		(1,280)								
19																		
20	Eliminate Non-Recurring SAP Costs							(2,502)		(2,502)								
21																		
22	Eliminate Unaccounted for Water Costs			(12,696)		0				(12,696)								
23																		
24	Eliminate Advertising Costs							(2,100)		(2,100)								
25																		
26	Eliminate Lunch Expenses							(215)		(215)								
27																		
28																		
29																		
30																		
31																		
32																		
33																		
34																		
35																		
36																		
37																		
38																		
39																		
40																		
41																		
42																		
Total Proforma Adjustments at present Rates			\$	-	\$	(14,605)	\$	24,223	\$	-	\$	-	\$	(8,945)	\$	-	\$	673

DEPRECIATION AND AMORTIZATION EXPENSE(SETTLEMENT)

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	Settlement Utility Plant	Settlement Annual Rate	Pro Forma Depreciation Amount
1													
2	Organization (amortization)	101301	\$ 17,700			\$ 17,700	0.00%	-	0.00%	-	17,700	5.00%	885
3	Miscellaneous Intangible Plant	101303	20,727			20,727	5.00%	\$ 1,036	3.33%	691	20,727	3.33%	691
4	Source Land and Land Rights	101310	460,591			460,591	0.00%	-	0.00%	-	460,591	0.00%	-
5	Source Structures and Improvements	101311	611,459			611,459	1.60%	9,783	2.75%	16,815	611,459	2.75%	16,815
6	Collecting and Impounding Reservoirs	101312	-			-	0.00%	-	0.00%	-	-	0.00%	-
7	Wells and Springs	101314	2,775,032			2,775,032	1.45%	40,238	3.67%	101,751	2,591,248	3.50%	90,694
8	Supply Mains	101316	182,935			182,935	1.36%	2,488	1.20%	2,195	182,935	1.20%	2,195
9	Other Water Source Plant (amortization)	101317	1,499,100			1,499,100	1.33%	19,938	5.00%	74,955	1,499,100	FIXED	71,737
10	Pumping Land and Land Rights	101320	709			709	0.00%	-	0.00%	-	709	0.00%	-
11	Pumping Structures and Improvements	101321	1,275,322			1,275,322	2.47%	31,500	2.75%	35,071	1,275,322	2.75%	35,071
12	Electric Pumping Equipment	101325	880,695			880,695	4.28%	37,694	3.43%	30,195	880,695	3.43%	30,195
13	Diesel Pumping Equipment	101326	32,297			32,297	5.00%	1,615	3.67%	1,184	32,297	3.50%	1,130
14	Other Pumping Equipment	101328	34,764			34,764	4.08%	1,418	4.40%	1,530	34,764	4.40%	1,530
15	Treatment Structures and Improvements	101331	176,164			176,164	2.47%	4,351	2.75%	4,845	176,164	2.75%	4,845
16	Treatment Equipment	101332	282,411			282,411	6.56%	18,526	3.67%	10,355	282,411	3.50%	9,884
17	T&D Land and Land Rights	101340	154,202			154,202	0.00%	-	0.00%	-	154,202	0.00%	-
18	T&D Structures and Improvements	101341	289,440			289,440	2.04%	5,905	2.75%	7,960	289,440	2.75%	7,960
19	Distribution Reservoirs and Standpipes	101342	1,272,926			1,272,926	2.04%	25,968	2.00%	25,459	1,272,926	2.00%	25,459
20	Transmission and Distribution Mains	101343	13,946,093			13,946,093	1.36%	189,667	1.20%	167,353	13,803,299	1.20%	165,640
21	Services	101345	4,464,538			4,464,538	2.00%	89,291	1.84%	81,991	4,464,538	1.85%	82,422
22	Meters	101346	740,054			740,054	5.94%	43,959	3.80%	28,122	740,054	3.80%	28,122
23	Meter Installations	101347	243,519			243,519	1.54%	3,750	3.80%	9,254	243,519	3.80%	9,254
24	Hydrants	101348	592,797			592,797	2.27%	13,456	2.40%	14,227	592,797	2.40%	14,227
25	Other T&D Plant	101349	98,704			98,704	1.33%	1,313	5.00%	4,935	98,704	5.00%	4,935
26	General Structures and Improvements	101390	590,808			590,808	2.99%	17,665	3.14%	18,568	590,808	2.75%	16,247
27	Office Furniture and Equipment	101391	80,398			80,398	3.09%	2,484	7.69%	6,184	80,398	7.46%	5,998
28	Computer Equipment - Hardware	101391H	522,662			522,662	12.65%	66,117	20.00%	104,532	522,662	20.00%	104,532
29	Computer Equipment - Software	101391S	45,897			45,897	12.65%	5,806	20.00%	9,179	45,897	20.00%	9,179
30	Transportation Equipment	101392	292,784			292,784	10.00%	29,278	11.25%	32,938	292,784	11.25%	32,938
31	Stores Equipment	101393	17,891			17,891	2.87%	513	5.00%	895	17,891	5.00%	895
32	Tools, Shop, and Garage Equipment	101394	142,771			142,771	3.46%	4,940	5.00%	7,139	142,771	5.00%	7,139
33	Laboratory Equipment	101395	23,907			23,907	6.67%	1,595	6.67%	1,594	23,907	6.67%	1,594
34	Power Operated Equipment	101396	162,947			162,947	4.73%	7,707	6.67%	10,863	162,947	6.67%	10,863
35	Communications Equipment	101397	286,606			286,606	10.00%	28,661	10.00%	28,661	286,606	10.00%	-
36	Miscellaneous Equipment	101398	26,780			26,780	6.28%	1,682	6.67%	1,785	26,780	6.67%	1,785
37													
38			\$ 32,245,628	-	-	\$ 32,245,628		\$ 708,345	Subtotal	\$ 841,226	31,919,050	Subtotal	\$ 794,860

	Filing	Settlement	Settlement Adjustment
Pro Forma Expense	\$ 841,226	\$ 794,860	
Reserve deficiency amortization	97,396	67,646	
Total	\$ 938,622	\$ 862,506	
Test Year Expense	823,706	823,706	
Pro Forma Adjustment	\$ 114,916	\$ 38,800	\$ (76,116)



**RATE BASE (SETTLEMENT)**

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	Settlement Adjustments	Settlement
1									
2									
3	Plant in Service	\$ 32,245,628	\$ 29,700,590	\$ 27,530,667	\$ 30,162,763	\$ 2,082,865	\$ 32,245,628	\$ (470,982)	\$ 31,774,646
4									
5	Accumulated Depreciation	(8,423,156)	(7,724,717)	(7,050,480)	(8,113,258)	(309,898)	(8,423,156)	166,170	(8,256,986)
6									
7	Net Plant in Service	\$ 23,822,472	\$ 21,975,874	\$ 20,480,187	\$ 22,049,504	\$ 1,772,967	\$ 23,822,472	\$ (304,812)	\$ 23,517,660
8									
9									
10	Add:								
11	Materials & Supplies	99,823	158,155	119,509	167,097		167,097		167,097
12	Prepayments	14,864	(4,912)	24,546	16,743		16,743	269	17,012
13	Deferred Expenses (net of amortization)	390,881	492,133	531,473	433,178		433,178		433,178
14	Working Capital Allowance	190,568	198,016	156,407	197,976		197,976	8,968	206,944
15									
16	Total Additions	696,135	843,393	831,935	814,994	-	814,994	9,237	824,231
17									
18									
19	Less:								
20	Customer Advances	(2,000)	(11,385)	(381,695)	(7,866)		(7,866)		(7,866)
21	Contributions in Aid of Constructions	(2,392,953)	(2,420,064)	(2,080,859)	(2,405,349)		(2,405,349)		(2,405,349)
22	Reserve for Deferred Taxes	(2,300,095)	(2,318,657)	(2,238,149)	(2,328,826)		(2,328,826)		(2,328,826)
23									
24	Total Deductions	(4,695,048)	(4,750,106)	(4,700,703)	(4,742,041)	-	(4,742,041)	-	(4,742,041)
25									
26									
27	Total Rate Base	\$ 19,823,559	\$ 18,069,161	\$ 16,611,418	\$ 18,122,458	\$ 1,772,967	\$ 19,895,425	\$ (295,575)	\$ 19,599,850
28									
29	Utility Operating Income <sup>2</sup>	\$ 1,203,016	\$ 1,013,165	\$ 958,761	\$ 1,203,016		\$ 1,623,467		\$ 1,513,108
30									
31	Return on Rate Base (RORB)	6.07%	5.61%	5.77%	6.64%		8.16%		7.72%
32									
33									

- 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.

OVERALL RATE OF RETURN (SETTLEMENT)

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

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

Line No.	Description	Component Ratio	Component Cost Rate	Weighted Average Cost Rate
1				
2		<i>Capital Structure as of 3/31/2008</i>		
3				
4				
5	Long Term Debt	58.20%	6.66%	3.88%
6				
7	Preferred Stock	0.01%	6.00%	0.00%
8				
9	Common Equity	41.79%	10.23%	4.28%
10				
11	Total	100.00%		8.16%
12				
13				
14		<i>Settlement</i>		
15				
16				
17	Total Debt	58.20%	6.26%	3.64%
18				
19	Preferred Stock	0.01%	6.00%	0.00%
20				
21	Common Equity	41.79%	9.75%	4.08%
22				
23	Total	100.00%		7.72%
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				

**CAPITAL STRUCTURE FOR RATEMAKING PURPOSES (SETTLEMENT)**

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

18

Line No.	Description	3/31/2008	Adj	Adj 3/31/2008	Ratio	Component Cost	Weighted Cost
1							
2							
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	\$ 11,500,000		\$ 11,500,000	58.20%	6.66%	3.88%
7							
8	Preferred Stock	\$ 2,800		\$ 2,800	0.01%	6.00%	0.00%
9							
10	Stockholder's Equity:						
11	Common Stock	\$ 2,187,075					
12	Paid in Capital	3,558,190					
13	Contributed Capital	480,250					
14	Retained Earnings	2,030,563					
15	Common Equity	\$ 8,256,078	\$ -	\$ 8,256,078	41.79%	10.23%	4.28%
16							
17	Total Capitalization	\$ 19,758,878		\$ 19,758,878	100.00%		8.16%
18							
19							
20							
21	Inter-Company Debt	\$ 2,600,000		\$ 2,600,000	13.13%	4.05%	0.53%
22	Long Term Debt	8,900,000		8,900,000	44.94%	6.91%	3.11%
23	Total Debt	\$ 11,500,000		\$ 11,500,000	58.07%	6.26%	3.64%
24							
25	Preferred Stock	\$ 2,800		\$ 2,800	0.01%	6.00%	0.00%
26							
27	Stockholder's Equity:						
28	Common Stock	\$ 2,187,075					
29	Paid in Capital	3,558,190					
30	Contributed Capital	480,250					
31	Retained Earnings	2,075,663					
32	Common Equity	\$ 8,301,178	\$ -	\$ 8,301,178	41.92%	9.75%	4.08%
33							
34	Total Capitalization	\$ 19,803,978		\$ 19,803,978	100.00%		7.72%
35							
36							
37							

REPORT OF FINAL RATE CHANGES (STEP INCREASE)

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

Test Year: Twelve Months Ended 03/31/08  
Page 1 of 1

Line No.	Rate/Class of Service	Effect of Proposed Change	Avg. # of Customers	Est. Annual Revenue		Proposed Change	
				Permanent Rates	Step Rates	Amount	% Change
1							
2							
3	Residential	Increase	7794	\$ 3,272,320	\$ 3,391,337	\$ 119,017	3.64%
4	Commercial	Increase	633	1,060,694	1,099,172	38,478	3.63%
5	Industrial	Increase	2	22,469	23,286	818	3.64%
6	Public Authority	Increase	58	55,524	57,535	2,012	3.62%
7	Seasonal	Increase		410,469	425,364	14,895	3.63%
8	Private Fire	Increase	279	263,917	273,479	9,562	3.62%
9	Public Fire	Increase	4	662,780	686,791	24,012	3.62%
10	Miscellaneous	Increase		135,834	137,480	1,646	1.21%
11	Tie to Schedule 6			(248)	415	415	
12			Grand Total	\$ 5,883,758	\$ 6,094,860	\$ 210,854	3.58%
13							
14							
15							
16							
17							
18							
19							
20							
21							
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23							
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25							
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27							
28							
29							
30							

Signed By: \_\_\_\_\_

Title: \_\_\_\_\_

REVENUE REQUIREMENT FROM STEP INCREASE (SETTLEMENT)

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

Test Year: Twelve Months Ended 03/31/08  
Schedule No. 6 (revised 07/02/09)  
Page 1 of 1

Line No.	Account Description	Pro Forma 3/31/2008	Proposed Increase	Proposed 3/31/2008
1				
2	Operating Revenues	-	\$ 210,854	\$ 210,854
3				
4	O&M Expenses			-
5	Depreciation	\$ 28,263		28,263
6	Taxes Other	19,854		19,854
7	Income Taxes	(42,362)	85,449	43,087
8	Total Operating Expense	5,755	85,449	91,204
9				
10	Utility Operating Income	\$ (5,755)	\$ 125,406	\$ 119,650
11				
12				
13	Utility Plant Investment	1,481,336		
14	Less: Costs included in base case	(31,167)		
15	Utility Plant for Step Increase	1,450,169		
16	Plus: Cost of Removal of old tank	99,705		
17	Rate Base Investment for Step	\$ 1,549,874		\$ 1,549,874
18				
19	Return on Rate Base	-0.37%		7.72%
20				
21				
22				
23	<u>Tax Calculation</u>			
24	Income before Income Taxes	\$ (48,117)		\$ 162,737
25	Interest Expense	(56,415)		(56,415)
26	State Taxable Income	(104,533)		106,322
27	State Income Tax	(8,885)		9,037
28				
29	Federal Taxable Income	(95,647)		97,284
30	Federal Income Tax	(33,477)		34,050
31				
32	Total Current Income Taxes	(42,362)		43,087
33				
34	Total Income Taxes	\$ (42,362)		\$ 43,087
35				
36				
37				
38				
39				

## **WATER INFRASTRUCTURE AND CONSERVATION ADJUSTMENT**

In addition to the net charges provided for in this Tariff, a Water Infrastructure and Conservation Adjustment (“WICA”) surcharge of xxx% will apply to all bills issued on or after , 20XX.

### **I. General Description**

Purpose: To recover the fixed costs (depreciation, property taxes and pre-tax return) of certain Commission-approved non-revenue producing system improvement projects completed and placed in service and to be recorded in the individual accounts, as noted below, between base rate cases. In addition, WICA provides the Company with the resources to accelerate asset replacement for infrastructure for the purpose of improving or protecting water quality and the reliability of service and to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act.

Eligible Property: The WICA-eligible property will consist of the following:

services (account 333), meters (account 334) and hydrants (account 335) installed as in-kind (i.e., same size) replacements for customers;

mains and valves (account 331) installed as replacements for existing facilities that have either reached the end of their useful life, are worn out or are in deteriorated condition,

main cleaning and re-lining projects and relocations that are non-reimbursable (account 331);

replacement of production meters (account 304 ); and

replacement of pressure reducing valves (accounts 309, 331);

### **II. Computation of the WICA**

Calculation: The initial charge, effective , 20XX, will be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between , 20XX and , 20XX. Thereafter, the WICA will be updated on an annual basis to reflect eligible plant additions placed in service during the twelve month period ending three months prior to the effective date of each WICA update. Thus, changes in the WICA rate will occur as follows:

Issued :

Issued by: \_\_\_\_\_

Effective:

Title: \_\_\_\_\_

Effective Date  
Of WICA Change

Date To Which WICA  
Eligible  
Plant Additions Reflected

January 1, 20XX + 1

October 1, 20XX

The fixed costs of eligible infrastructure system improvement projects will consist of depreciation, property taxes and pre-tax return, calculated as follows:

**Depreciation:** The depreciation expense will be calculated by applying the depreciation rates employed in the Company's last base rate case for the plant accounts to the original cost of WICA-eligible property minus the corresponding retirement unit recorded.

**Property Taxes:** For the first year that a WICA for any particular project is in effect, the property tax expense will reflect an estimate of the tax expense for such projects based on the tax rate then in effect. If such property taxes will be due for only a portion of the calendar year, then the WICA for the first year shall reflect only the property taxes projected to be paid. For the second and subsequent years that a WICA for those projects is in effect, the WICA shall be determined using the taxes due and owing for such projects based on the tax bill for a full tax year. The WICA shall not be adjusted in subsequent years, regardless of any change in the taxes originally assessed.

**Pre-tax return:** The pre-tax return will be calculated using the state and federal income tax rates. The cost of equity and debt will be the rates approved in the Company's last base rate case, DW 08-098, or a subsequent docket.

**WICA Surcharge Amount:** The charge will be expressed as a percentage carried to four decimal places and will be applied to the effective portion of the total amount billed to each customer under the Company's otherwise applicable rates and charges.

**Formula:** The formula for calculation of the WICA surcharge is as follows:

$$\text{WICA} = \frac{(\text{ISI} \times \text{PTRR}) + \text{Dep} + \text{PT}}{\text{BRWR}}$$

Where:

Issued :

Issued by: \_\_\_\_\_

Effective:

Title: \_\_\_\_\_

ISI= the original cost to the Company of eligible infrastructure system improvement projects.

PTRR= the pre-tax return rate applicable to eligible infrastructure system improvement projects.

Dep= annual depreciation expense related to eligible infrastructure system improvement projects.

PT= annual property taxes related to eligible infrastructure system improvement projects.

BRWR= base retail water revenues as approved by the Commission in the Company's last rate proceeding, DW 08-098, or a subsequent docket.

Annual updates: Supporting data for each annual update will be filed with the Commission and the Office of Consumer Advocate sixty (60) days prior to the effective date of the update. The Company shall also provide notice to the Towns.

### III. Safeguards

Cap: The amount of the WICA applied between general rate case filings shall not exceed seven and one-half percent (7.5%) of the Company's annual retail water revenues as approved in its most recent rate filing, and shall not exceed five percent (5%) of such revenues for any twelve-month period.

Audits: The WICA will be subject to audit prior to the determination by the Commission.

New Base Rates: The WICA charge will be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the WICA. Thereafter, only the fixed costs of new eligible plant additions, that have not previously been reflected in the Company's rate base, would be reflected in the annual updates of the WICA.

Customer Notice: Customers shall be notified of changes in the WICA by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing. Before sending, the Company will review the notice with the Commission's Consumer Affairs division.

Issued :

Issued by: \_\_\_\_\_

Effective:

Title: \_\_\_\_\_