BEFORE THE STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
Petition for Permanent Rates
DW 08-098

Direct Joint Testimony
of

Kenneth E. Traum
Assistant Consumer Advocate
and
Stephen R. Eckberg
Utility Analyst

Dated: June 9, 2009

Q. Please state your names, positions and business address.

A. (Mr. Traum) My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of Consumer Advocate (OCA). The OCA is located at 21 South Fruit Street, Suite 18, Concord, New Hampshire 03301.

A. (Mr. Eckberg) My name is Stephen R. Eckberg. I am a Utility Analyst for the OCA.

Q. Do you both include in this testimony a statement of your qualifications?

A. (Mr. Traum) Yes, my resume is included in this testimony as Attachment 1.

A. (Mr. Eckberg) Yes, my resume is included as Attachment 2.

Q. Have you both previously testified before the New Hampshire Utilities Commission (Commission)?

A. (Mr. Traum) Yes.

A. (Mr. Eckberg) Yes.

Q. Please describe the role of the OCA in this proceeding.

A. The OCA is statutorily authorized to advocate on behalf of residential customers of regulated utilities. RSA 363:28, II. Aquarion Water Company of NH, Inc. (Aquarion or Company) serves approximately 8,770 residential customers in the Towns of Hampton and North Hampton and in the Rye Beach and Jenness Beach Precincts in the Town of Rye along the New Hampshire seacoast. The OCA is participating in this docket on behalf of all of these residential customers.

Q. What is the purpose of your testimony?

A. Our testimony responds to the request for permanent rates filed by Aquarion. The first part of our testimony discusses proposed adjustments to the Company's proposed revenue requirement. The second part of our testimony discusses certain proposed changes to the Company's rate structure.

Q. Please briefly summarize the Company's permanent rate request.

A. The Company seeks to increase its annual water revenues by $1,056,070. This amount equates to an overall increase of 21.08%. The Company proposes to apply the increase uniformly across all rate classes, as well as to certain miscellaneous charges.

Also, the Company seeks a step adjustment to rates to recover its $1.5 million rate base investment to replace the Mill Road Standpipe. The Company proposes that the step adjustment be effective as of the date of the Commission's decision on permanent rates.

Q. You referred to certain proposed changes to the Company's rate structure. Please summarize these proposals.

A. The Company seeks four changes to its rate structure. These are implementation of: (1) a Water Infrastructure and Conservation Adjustment surcharge (WICA); (2) a System Development Charge (SDC); (3) an Inclining Block Rate structure; and (4) a Water Balance Plan (WBP).

Q. What is the OCA's position on the Company's request to increase its revenue?

A. We agree that the Company is entitled to an increase. However, we propose certain adjustments to the Company's proposed revenue requirement.

Q. **Please list the OCA's proposed adjustments to the Company's revenue requirement.**

A. The OCA proposes the following adjustments:

(1) A reduction to the interest rate for short-term debt.
(2) The use of a return on equity (ROE) more consistent with a recent Commission decision.
(3) A reduction to production expense associated with unaccounted-for water.
(4) A reduction to Employee Bonus expense.
(5) Limiting expense pro forma adjustments to the known and measurable amounts that occur during the 12 months following the test year.
(6) The removal of non-recurring test year expenses.
(7) A reduction to MUI Corporate expenses.
(8) A reduction to certain insurance costs.

(9) The removal of lobbying expenses.

(10) The removal of certain advertising expenses.

(11) The removal of expenses associated with two lunches for the Fire Chiefs Council.

(12) Adjust Rate base to reflect thirteen month average rather than year end value and corresponding adjustment to depreciation expenses.

Q. Please summarize the basis for the OCA's first adjustment to the revenue requirement, concerning the interest rate on short-term debt.

A. In April 2009, in response to a Company filing, the Commission authorized the Company to exceed the short-term debt limit set by Puc 608.05. See Order 24,959. The Commission's order also adopted Staff's recommendation to include the Company's short-term debt in the calculation of the Company's overall weighted average cost of capital (also referred to as rate of return) in this rate case. See Id. at 3. The Company included $2.6 million of short-term debt in the calculation of its rate of return, see Schedule 4A (Attachment 3), but used an interest rate that the OCA considers too high, 5.81%.

Q. What does the OCA recommend for the interest rate on short-term debt?

A. In response to discovery, the Company provided the average monthly interest rate on inter-company debt from May 2007 to February 2009. See Attachment 4, response to OCA 2-5. Although the rate has declined to 1.42% for February 2009, the OCA supports using the interest rate in effect at the end of the test year or 3.97% (average of March and April, 2008). Using this rate instead of the rate proposed by the Company equates to a 25 basis point reduction in the total cost of capital or a $49,739 reduction in the revenue requirement requested.

Q. **Please discuss the basis for the next adjustment proposed by the OCA, which concerns the ROE.**

A. The Company proposes a 10.23% return on equity. This recommendation exceeds the return on equity recently authorized by the Commission in a litigated proceeding.

Q. What does the OCA recommend for the return on equity?

A. The OCA asks the Commission to authorize a return on equity for Aquarion that is more consistent with the return on equity authorized for EnergyNorth d/b/a National Grid in DG 08-009, 9.54%.

Q. What is the impact of an ROE of 9.54%?

A. In response to discovery, the Company stated that a 50 basis point reduction to the proposed 10.23% ROE would reduce the overall revenue requirement by approximately $70,000. See Attachment 5, response to OCA 1-55. Therefore, if this same rate of 9.54% were applied in this case, the revenue requirement would be reduced by approximately $96,600 [(10.23 – 9.54)/.50 x $70,000].

Q. Please address the basis for the OCA's next adjustment, a reduction to the costs associated with producing unaccounted-for water.

A. The Company stated in discovery that in the twelve-month test year (ended March 31, 2008), the percentage of unaccounted-for water was 19.8%. See Attachment 6, response to OCA 2-10.

Q. Is the test-year level of unaccounted-for water comparable to the Company's experience during other time periods?

A. No. In response to discovery, the Company provided information that the comparable unaccounted-for water percentages for 2005, 2006 and for the 12 months ended November 2008 were 9.6%, 13.5%, and 15.7%, respectively. See Attachment 7, response to OCA 1-6. Further, for the twelve months ended February 28, 2009, the unaccounted-for water percentage was 14.8%. See Attachment 6, response to OCA 2-10.

Q. Is there some amount of unaccounted-for water that is generally considered acceptable?

A. The Company's consultant, Tata & Howard, prepared an Integrated Water Resource Plan (IWRP) for the Company in which it states, "AWWA [American Water Works Association] specifies 10-15 percent as an acceptable level of unaccounted for water in a distribution system." See Attachment 8, response to OCA 1-11, Attachment A, p. 26.

Q. What is your conclusion and recommendation concerning the test-year percentage of unaccounted-for water?

A. Based upon the information provided by the Company's consultants, we conclude that the Company's unaccounted-for water was abnormally high during the test year. Because there are production costs incurred by the company to pump and treat this unaccounted for water, we recommend that an adjustment be made to test year production expenses to account for the "excess" unaccounted for water.

Q. What is the amount of the adjustment the OCA recommends?

A. In response to discovery, the Company stated that each 1% increase in unaccounted-for water adds $2,645 of production expense. See Attachment 9, response to OCA 1-7. Applying the upper limit of 15% stated in the Company's IWRP, the production expense adjustment should reflect the difference between 15% and the 19.8% reported for the test year. Therefore, we recommend an adjustment of $12,696 [(19.8 – 15.0) x $2,645].

Q. Please summarize the basis for the OCA's next proposed adjustment to the costs for employee bonuses and officer incentive payments.

A. The Company included in its calculation of revenue requirement its test year expenses, and a pro forma adjustment, for bonuses paid to employees and long-term incentive payments to officers. See Attachment 10, Schedule 1B, line 6; Attachment 11, Schedule 1E; and Attachment 12, response to OCA 2-1. The Company's pro forma test year amount for employee bonuses is $15,932. See Attachment 13, response to OCA 3-3. The Company's pro forma test year amount for officer incentive payments is $15,907. See Attachment 12, response to OCA 2-1.

We understand that for ratemaking purposes, an expense such as the employee bonus or officer incentive payments should be necessary to providing service and provide a benefit to the ratepayer. The Company's Employee Bonuses and Officer Incentive Compensation, however, do not appear to meet this standard.

According to the details provided by the Company, in the first instance, the awarding of bonuses and incentive compensation is dependent upon “achieving a threshold ‘Profit Before Taxes’.” See Attachment 14, response to OCA 3-1 and Attachment, p. 2; see also Attachment 15, response to OCA 1-43.

Further, at least one of the service quality metrics, which apply if the financial threshold is met concern the performance of Aquarion Water Company, Inc. of Connecticut (Aquarion CT). See Attachment 14, response to OCA 3-1 and Attachment, p. 1; see also Attachment 15, response to OCA 1-43. Therefore, the OCA believes that the Company has not met its burden to demonstrate that the employee bonus and officer incentive expenses are necessary to providing service and benefits to its New Hampshire customers.

Q. What is the OCA’s recommendation concerning the Company’s proposed recovery of employee bonus and officer incentive expenses?

A. The OCA recommends that the Commission reduce the revenue requirement by $31,839, the total amount included by the Company for employee bonuses and officer incentive compensation. In the alternative, the OCA recommends that the Commission only allow the Company to recover 25% of this total, or $7960, which is consistent with the Connecticut Department of Public Utility Control's decision in Aquarion CT's last base rate case. See Attachment 16, response to OCA 2-12, excerpt from Attachment A, pp. 56-57.

Q. The next issue concerns limiting pro forma adjustments to changes that occurred during the 12 months following the test year. Would you please explain this further?

A. Yes. The general goal of ratemaking is to account for the relationship among revenues, expenses and rate base as they existed during a test year period. Then, adjustments are made to revenues and expenses for known and measurable changes that occur during the 12 months following the test year. In making proposed adjustments to the Company's request, our main focus is to apply these principles consistently.

Q. Please list the adjustments the OCA feels are necessary relating to this issue.

A. The OCA's adjustments include:

(1) The Company's Schedule 1C (see Attachment 17) regarding Salaries and Wages, calculates a pro forma adjustment of $63,446 to adjust for and annualize a wage increase that took effect during the 12 months after the test year. Specifically, this wage increase took effect on December 1, 2008, 8 months after the end of the test year. Consequently, the OCA's position is that only 4 months of the increased expenses should be included as a pro forma adjustment to the test year. Therefore, the OCA recommends a pro forma adjustment to Salaries and Wages of only $51,851. This is a reduction in the requested revenue requirement of $11,595. See Attachment 18, response to OCA 1-39.[1]

(2) Consistent with the prior item, the OCA recommends that the Company's adjustment to Payroll taxes, see

[1] The OCA would typically recommend an adjustment to benefits corresponding to a recommended salary and wage adjustment. In this case, however, the OCA is not aware that the company proposed a pro forma increase to benefits. So, we make no recommendation for such a decrease to benefit expenses.

Attachment 19, Schedule 1X, should be reduced by $897 ($7,064 - 6,167). See Attachment 20, response to OCA 1-40.

(3) The Company's filing includes the cost of purchased electricity. See Attachment 21, Schedule 1J. The total pro forma expense proposed is $206,288. However, the Company states its actual expense for the 12 months following the test year was $205,101. See Attachment 22, response to OCA 3-38. Thus, the OCA recommends that the requested revenue requirement be reduced by $1,187.

(4) The Company's filing includes pro forma adjustments for natural gas, propane, and fuel oil. See Attachment 23, Schedule 1P. While current prices for these fuels are considerably lower now than they were a year ago, it would be inconsistent for the OCA to recommend use of current prices as we are more than 12 months beyond the end of the test year. Instead, we propose that these adjustments be based upon the prices in effect approximately 6 months beyond the test year. See Attachment 24, response to OCA 2-4.

At these prices, the pro forma adjustments for natural gas, propane and fuel oil is reduced by $713.

Q. What is the total impact of these four recommended adjustments proposed by the OCA?

A. The total recommended reduction is $14,392 ($11,595 + $897 + $1,187 + $713).

Q. Please address the basis for the OCA's next proposed adjustment, the removal of nonrecurring test year expenses.

A. Certainly. In response to discovery, the Company indicated that $59,020 included in the rate filing is related to consulting services which should be considered as nonrecurring. See Attachment 25, response to Staff 3-3.

Q. What does the OCA recommend with regard to these non-recurring expenses?

A. The Company's revenue requirement should be reduced by $59,020 to account for these non-recurring expenses.

Q. Please explain the basis for the OCA's next adjustment to the revenue requirement, which concerns the expenses related Macquarie Utilities Incorporated (MUI).

A. According to Company, the gross charge included in the test year expenses from MUI for 11 months and 1 month from Kelda Management (the Company's previous owner) fee was $40,390. Attachment 26, response to OCA 2-25. This amount was then reduced for pro forma purposes to $37,494. See Attachment 27, Schedule 1T. The OCA believes that the company has not met its burden of proof to demonstrate that these costs are necessary to the provision of service to customers and that there is a benefit to customers.

Q. What is the OCA's recommendation concerning the MUI expenses?

A. We recommend that the Commission allow only 25% of the costs associated with MUI, or $9,374 ($37,494 x .25), to be included for the purpose of calculating the revenue requirement. This course of action is consistent with the Connecticut Department of Public Utilities' decision in the Aquarion CT's last base rate case. See Attachment 16, response to OCA 2-12 and Attachment A, p. 66-67. That

Order also instructed the Company, in future rate cases, “to submit detailed information regarding [the MUI expense] to include benefit conferred, justification for hourly rates, detailed listing of all allocable expenses and calculations supporting the allocation methodology.” Id. at p. 67. The OCA considers such requirements appropriate for the NH Commission to impose upon Aquarion NH.

Q. Please address the basis for the OCA’s next proposed adjustment, which relates to the removal from the revenue requirement calculation of certain insurance costs.

A. The Company, in response to discovery, indicated that the pro forma test year includes an increase in expense associated with its Commercial General Liability (CGL) policy. See Attachment 28, response to Staff 2-23, section (b). The CGL policy “provides coverage for third-party property and liability damage claims arising out of the Company’s operations.” Id. at section (c). The amount of the increase is $20,737 and is related to a change from a self-insured program to a guaranteed-cost program. With this change the Company now has “first dollar coverage.” Id. The Company also stated, “This policy change was made in an effort to mitigate the Company’s financial risk.”

Q. What is the OCA's recommendation concerning the increased expense associated with the Company's CGL policy?

A. The OCA views the Company's move to, and the expenses associated with, the guaranteed-cost program as a shifting financial risk to ratepayers. In effect, if the increased expenses associated with this change were passed on to ratepayers, they pay a higher premium to mitigate the shareholders' exposure to the financial risk associated with claims against this policy. Therefore, we recommend that the entire increase associated with this new insurance coverage be borne by shareholders. This recommendation equates to a pro forma reduction to expense in the amount of $20,737.

Q. Please address the basis for the OCA's next adjustment regarding the removal of lobbying expenses.

A. It is our understanding that Commission practice is to exclude lobbying expenses paid by regulated utilities from the calculation of rates. In response to discovery, the Company stated that $883 of the dues paid to the National Association of Water Companies (NAWC) were for lobbying purposes. See Attachment 29, response to OCA 2-6.

Q. What is the OCA's recommendation concerning these lobbying expenses?

A. The OCA recommends that the Company's pro forma test year expenses be reduced by $883.

Q. Next, please summarize the OCA's concerns about advertising expenses.

A. The Company's filing reports a $2,100 advertising expense for sponsorship of a back to school picnic for North Hampton. See Attachment 30, Section 6 of the PUC 1604.01 Filing Requirements; and see Attachment 31, response to OCA 1-56. The OCA does not believe this expense meets the ratemaking standard that an expense be necessary to the provision of service and that it provide a benefit to ratepayers in order to be included for ratemaking purposes.

Q. What does the OCA recommend with regard to this advertising expense?

A. The OCA recommends that the pro forma test year expenses be reduced by $2,100 so as to eliminate recovery of this expense.

Q. Are there any other expense items for which the OCA believes an adjustment should be made relative to the ratemaking standard that you just mentioned?

A. Yes. There is one relatively small adjustment that we request the Commission direct the Company to make. In response to discovery, the Company has stated that it paid for lunch for all attendees at two meetings of the "Fire Chiefs Council" held during the test year on June 13, 2007 and November 13, 2007. See Attachment 32, response to OCA 3-36. The total expense for these two events is $215. Id. The OCA acknowledges that this is a relatively small expense, but we do not believe that the Company has sustained its burden of proving that this expense is necessary to provide service and benefits to ratepayers.

Q. What does the OCA recommend with regard to this expense?

A. The OCA recommends an adjustment in the amount of $215 to remove this expense for ratemaking purposes.

Q. Please discuss the basis of your next recommendation, that the Company's rate base and depreciation expenses be calculated using a thirteen-month average.

A. In its filing, the Company has used the test year end value for its rate base (plant in service) rather than using a thirteen month average value. The OCA disagrees with this approach. As seen in footnote 1 on the Company's Schedule 3 (Attachment 33) the Company proposes a pro forma adjustment to the 13 month average of Plant in Service to the 3/31/2008 level. This net adjustment increases the rate base by $1,772,967. The OCA recommends that this adjustment be removed. This removal would make an estimated reduction on the Company's revenue requirement request in the amount of $243,232. This amount is calculated by multiplying the recommended rate base adjustment by the Company's proposed Rate of Return (RoR) of 8.16% and then grossing up for taxes by dividing by the tax factor of 59.48%. The OCA's use of the Company's proposed RoR in this calculation is not intended to convey our agreement with this aspect of the Company's rate proposal.

To be consistent, depreciation should be calculated based on this reduced plant in service value. The OCA has not calculated this value at this time, as this is in part, dependent upon service lives and salvage rates of retired plants. The OCA has deferred to Staff testimony on these two issues. However, the Company has provided additional relevant information on both its Schedule 1W (see Attachment 34) and in discovery, See Attachment 35, response to OCA 1-36.

Q. On June 2 the NHPUC Audit team issued an audit report related to this docket. Does the OCA have any recommendations related to the Company's revenue requirement as a result of this report?

A. No, not at this time. Although we have reviewed the Audit report, which we received on June 2, we have not had an opportunity to ask questions of the Company or Audit Staff about the issues discussed in that report. To the extent that we have any questions about these issues, or any of the conclusions or recommendations in the Audit report, we will ask these questions at the final hearing. Consequently, we reserve our right to take a position on any of these issues, conclusions or recommendations until that time.

For clarity, we provide the following example of an issue that strikes us as appropriate for follow up at the hearing. On page 17 of the audit report, see Attachment

36, in the section on State Income Taxes, Audit Staff states the following conclusion: “The result is an overpayment of $74,138 which was requested to be applied to the 2008 tax liability.” (emphasis omitted) The amount of $74,138, however, differs from a $45,075 adjustment made by the Company on Schedule 1AA, see Attachment 37. Consequently, without more information, we are unable to determine whether, or not, an adjustment to pro forma taxes is required.

Q. Does this conclude your discussion about the OCA’s proposed adjustments to the Company’s revenue requirement for permanent rates?

A. Yes.

Q. Before turning to the proposed rate structure changes, does the OCA have a position on the Company’s requested Step Adjustment?

A. The OCA does not object to the Company’s request for a Step Adjustment, but reserves the right to comment on the final costs. The OCA understands that the final amount of the revenue adjustment will be based on the final project costs submitted by the Company when the project is complete and providing service to customers. These final project costs will be subject to audit by NHPUC Staff. The OCA asks that the Company provide a copy of its step adjustment filing and recommends that the Commission use the same depreciation rates and cost of capital as used to determine permanent rates.

Q. Turning to the rate structure issues you identified at the beginning of your testimony, does the OCA have a position on the Company's Water Infrastructure and Conservation Adjustment (WICA) surcharge proposal?

A. Yes, the OCA is generally supportive of the proposed WICA. However, we believe that the Company's proposal for this program requires further refinement and certain additional limitations. In the last few days, the OCA has received some additional information from the Company about its rate structure proposals, but we have yet to have the opportunity to review and respond to these in an informed and meaningful way.

Q. Recognizing that the OCA has yet to digest the further details just received from the Company, do you have any general comments to offer?

A. Yes, generally speaking, and pending our review of the further details recently received from the Company, the OCA offers the following comments about the proposed WICA.

(1) The OCA believes that the WICA, if approved by the Commission, should be authorized as a pilot program of limited duration. The OCA suggests a duration of no more than four years.

(2) The OCA believes that the WICA should be restricted to non-revenue producing projects.

(3) The OCA believes that the recovery of actual costs through the WICA should be limited to the estimated costs provided during the pre-approval process. Any remaining balance would be through a subsequent base rate case.

(4) The WICA surcharge should be determined annually and be capped at a specific percentage of base revenue

level approved by the Commission in the most recent general rate proceeding. Further, the cumulative increase for the entire Pilot period should be capped at some total percent of rate base.

(5) The WICA surcharge should cover ***only*** eligible projects and costs that are incremental to the historic average amount spent for projects that would have been WICA eligible had such a program been in effect. The OCA proposes that a four year historic average be used to set the baseline amount that would be ineligible to recover through a WICA surcharge.

(6) The OCA believes that, in calculating the WICA surcharge, any projected cost savings due to the WICA projects should be included. For instance, an objective of the WICA is to "reduce water lost due to leakage". See Attachment 38, Pre-filed testimony of Larry Bingaman, page 13, line 5. While such an objective is clearly a significant benefit to the system, reducing water loss will also reduce the Company's Operation and Maintenance costs. So, costs savings associated with reduced unaccounted-for water

should be included in the calculation of the WICA surcharge.

(7) The Company should not file a petition for a change in its WICA in the same twelve month period in which it has filed a request for a general increase in basic rates.

(8) The OCA believes that the WICA implementation process should include, at a minimum, the following processes and limitations:

(a) A pre-approval process to determine the projects eligible for inclusion. This process should include receipt by the Company of input from Staff, the OCA and other interested stakeholders. To the extent that the participants to the pre-approval process are unable to agree on a list of eligible projects, an opportunity for a hearing before the Commission or its designee should be available. The pre-approval process should be limited to reviewing and pre-approving projects planned for the following year and should include a review of the Company's best estimates of the costs for the proposed projects. The pre-approval process will include a determination by the Commission that the eligible projects are consistent with the public good, but will not include the determination of whether or not the actual costs were prudently incurred.

(b) A process to review the actual costs incurred for eligible projects. This process would occur when pre-approved projects are completed and in service. At that time, the Company should be required to file a request to recover and proof of its actual costs. This filing should be audited by the PUC Audit Staff, and be provided to the OCA. The Commission should determine the prudence of actual costs only after Audit's review and an opportunity for the filing of comments by the Staff, the OCA and other stakeholders.

Q. Are there any other comments that you would like the Commission to consider in authorizing a WICA Pilot Program?

A. Yes, we have two additional comments. First, the OCA urges the Company, Staff, and other parties to carefully discuss and think through as much as possible the process for implementing a WICA in order to ensure that all parties have the same understanding of how it will work.

Second, through the Company's filing and discovery responses, the OCA is aware that rate mechanisms similar to the proposed WICA are in effect in other jurisdictions. See, e.g., Attachment 38, Pre-filed testimony of Larry Bingaman, page 13, lines 10-13; see also Attachment 39, response to OCA 1-15; and Attachment 40, response to OCA 2-16. Therefore, some information is likely available from other regulatory agencies that would help guide the Commission in making its determination about whether to authorize, and, if so, how to implement a WICA for Aquarion. The OCA encourages the Commission, before it authorizes a WICA in NH, to investigate the experiences of other jurisdictions – good and bad – with WICA-like mechanisms.

Q. Please address the OCA's position on the System Development Charge (SDC).

A. One way to view the SDC is as an expansion of the current calculation of the contribution required for a new connection. Under the SDC "buy-in" approach, which the Company advocates (see Attachment 38, Pre-filed testimony of Larry Bingaman, page 17, line 4), the calculation of the contribution is extended to cover costs related to the capacity of the existing infrastructure beyond the new customer's service line.

Q. Does the OCA support the SDC?

A. The OCA supports the concept of eliminating or reducing subsidization by existing utility customers of new customers. Generally, the OCA supports requiring new customers to pay the fair share of the costs they impose upon the utility for connecting them to the system. We see the SDC concept as consistent with, and an expansion of, that position.

As discussed above with regard to the proposed WICA, in the last few days, we have received additional information from the Company concerning the SDC. We have yet to fully digest this new information, and reserve our right to comment about it at a later time. Notwithstanding this reservation, at this time, we are generally supportive of the SDC with one limitation.

Q. What limitation to the SDC does the OCA propose?

A. As we propose for the WICA, the OCA proposes that the SDC be implemented as a four year Pilot program.

Q. Please comment of the next rate structure proposal, the implementation of an inclining block structure.

A. The OCA is generally supportive of cost-effective approaches to conservation. We believe an inclining block rate, if properly structured and implemented, will result in conservation by consumers.

Q. Please elaborate on what you mean by "properly structured and implemented"?

A. The residential customers that the Company proposes to bill an inclining block rate are billed quarterly. The OCA is very concerned that quarterly billing would significantly dampen the main objective of this rate structure – the price signal to the customer. Without the more frequent and regular price signal available with monthly billing, the customer's ability and opportunity to learn the connection between usage and cost is impaired. Also, the risk is increased that, without this connection, customers will end up with very high water bills. With the current quarterly billing, the effect of the inclining block rate on the customers' bill will not be seen until *long after* the water consumption has occurred.

Q. What does the OCA recommend to address this concern about timelier price signals?

A. The Company could, for example, transition to monthly meter reading and billing for at least the summer period. This is a time when consumption is typically higher and bills are likely to be larger as a result of the proposed inclining-block rate structure. Then, over some reasonably short period of time, the Company could transition to year-round monthly billing.

Also, the OCA believes that customer education and outreach will be very important to the successful implementation of an inclining-block rate structure, if the Commission approves the Company's proposal.

Q. Does the OCA have any other comments about the proposed inclining-block rate structure?

A. The Company proposes to exempt seasonal and industrial customers. Because the flat usage rate charged to seasonal customers is higher than the proposed second, or tail, block of the proposed inclining block rate, the OCA does not oppose their exemption from this rate.

Q. What about the proposed exemption of industrial customers, does the OCA agree with the Company's proposal to exempt them from the proposed inclining block structure?

A. No. The Company contends that the usage of its two industrial customers is "fairly stable and not weather sensitive." See Attachment 41, Pre-filed testimony of Troy Dixon, p. 7, lines 8-10. Accepting that statement and recognizing that the Company is proposing to increase the industrial class rates by approximately the same percentage as the overall percentage increase, however, the OCA still believes that a move towards an inclining-block structure is appropriate for these two customers at this time.

Q. What does the OCA suggest for the industrial class rate?

A. The OCA suggests that the Company re-design the industrial class rate in inclining blocks. This could be done in a revenue-neutral way; in other words, in a way that results in the existing industrial customers paying the same amount under the inclining-block rate, for the same usage, as under the Company's proposed rate. But, the inclining block rate would have an advantage over the Company's proposed industrial rate structure in that it would provide these customers with a greater price incentive to reduce their water use. This objective is consistent with the Company's conservation goals.

Q. Please explain the OCA's position on the final rate structure proposal, the Water Balance Plan (WBP).

A. The OCA is generally supportive of the concept of a WBP as it is aimed at promoting conservation. We believe further discussion is warranted regarding: 1) whether 100,000 gallons per year is the proper threshold; 2) whether there should be any exceptions to the fee; and 3) the process for spending “Water Banking” funds. See Attachment 38, Pre-filed testimony of Larry Bingaman, page 20-21.

Also, as mentioned above with regard to the proposed WICA and SDC, we have just received additional information from the Company concerning WBP. We will require additional time to review these details, and reserve our right to comment further about the WBP at a later time.

Q. Does this conclude your comments concerning the Company’s proposed changes to its rate structure?

A. Yes.

Q. Do you have any additional issues that you wish to raise before you conclude your testimony?

A. Yes. Although the issue of rate case expenses is not ripe for resolution at this time, we offer some general comments in anticipation of the Commission’s determination of this issue. The OCA has consistently supported competitive bidding as the primary approach utilities should take in order to minimize costs to ratepayers. In this regard, we view rate case expenses as no different than other utility expenses. We encourage the Commission to require utilities to use competitive bidding to procure assistance from consultants and legal counsel for rate cases.

Q. Do you have any final comments?

A. Yes. This testimony is based upon filings and responses to discovery received to date. To the extent that the Company makes additional filings, revises prior filings, or supplements previous data responses, or that the testimony filed by other parties raises new issues, the OCA reserves its right to comment at a later time.

Q. Does this complete your testimony on behalf of the OCA?

A. Yes. Thank you.

DW 08-098 Aquarion NH
Testimony of Traum and Eckberg
List of Attachments

Attachment 1 – Traum Qualifications
Attachment 2 – Eckberg Qualifications
Attachment 3 - Schedule 4A
Attachment 4 - Response to OCA 2-5
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