

Testimony of Frederick W. Welch

1 reasons are the following. First, the Petition is seeking a very high, excessive rate
2 increase of 18.3 % with a revenue requirement of \$1,113,931. This follows upon a
3 double digit rate increase in 2009 (in DW 08-098) that imposed a 17.44% increase
4 on consumers, and an 18.64% rate increase that was imposed in 2006 (in DW 05-
5 119). Second, the petitions for rate increase by Aquarion have become more
6 frequent, in spite of the institution of a pilot WICA program in 2009: whereas rate
7 increases used to be sought more than 6 years apart (in DR 91-023, and then in DW
8 99-057, and then in DW 05-119), now we are experiencing rate increase petitions
9 that are only 3 years apart: (in DW 05-119, and then in DW 08-098, and then in
10 DW 12-085). Third, a major portion of the increase in revenues sought by
11 Aquarion to be authorized is to make up for losses in revenue due to declines in
12 water consumption by consumers, thereby penalizing consumers for conservation.
13 Fourth, Aquarion is seeking to have the Commission grant a rate of return on equity
14 that is excessive—10.25%, and that would represent an increase of .75% over the
15 9.75% rate of return on equity that was granted by the settlement, to which the
16 Town of Hampton was not a party, in DW 08-098. In the prevailing economic
17 climate, where consumers can make nowhere near the return that Aquarion seeks to
18 make, and the cost of capital has markedly decreased, the rate being sought is
19 shocking. Fifth, Aquarion seeks in this case to make the trial WICA program
20 permanent, which is being used by Aquarion to achieve annual rate increases
21 without achieving the goals of decreasing rate shock and the frequency of rate
22 petitions. I will add greater detail to some of these reasons below.

1 **Q. For public entities like Hampton, does the rate of increase being sought**
2 **exceed even the figure of 18.3%?**

3 A. Yes, the bill analysis provided by Aquarion in its November 19, 2012 response
4 to data requests reveals that Aquarion is seeking a total change in revenue of
5 22.51% for public fire service as well as private fire service [Exhibit 1 attached-
6 -Bill Analysis Schedules 5G and 5H (from Attachment A to Staff 3-11)]. This
7 larger percentage rate increase affects 268 public fire hydrants in the Town of
8 Hampton, which has over 55% of the hydrants served by Aquarion water. The
9 resulting revenue of \$468,786 is not based upon consumption, but rather upon
10 availability of water. This is an additional cost that all property taxpayers bear
11 over and above what they pay for their own private consumption of Aquarion
12 Water.

13 **Q. What has the Town of Hampton learned from discovery in this case about**
14 **the amount of revenue that Aquarion is seeking to have the Commission**
15 **award to compensate Aquarion for loss of revenues due to water**
16 **conservation on the part of consumers?**

17 A. In response to the Town's data requests, the Company has indicated that
18 \$214,000 of the \$1,113,931 of increased revenues it is seeking in this case [or
19 19.21% of them] are due to declines in its ratepayers' consumption of water.
20 [Exhibit 2 attached—Aquarion's response dated July 25, 2012 to Hampton 1-3].
21 As early as the pre-hearing conference, the Commissioners have expressed
22 concerns here about the Company's being in a "downward spiral" in terms of

1 declining consumption and the Company's continually seeking rate increases
2 based on revenue needs that are based upon how things were done in the past.
3 See Transcript of July 11, 2012 Prehearing Conference at pages 18-19. The
4 Company was challenged to look at things differently in this case and questioned
5 whether the Company should change the way it looks at things. The Company
6 has not yet done so in this case, and the Commission in its December 17, 2012
7 letter has directed that Aquarion be prepared to address a number of questions
8 concerning Rate Design that include how to account for the success of
9 consumers in reducing water usage.

10 **Q. How has the Town of Hampton responded to Aquarion's approach to**
11 **seeking to have the Commission authorize an increase in its return on equity**
12 **without expert testimony?**

13 A. Aquarion has sought an increase in its authorized return on equity from 9.75%
14 to 10.25%, and is so far is doing so without presenting any expert testimony to
15 support its position. In response to the Town's data requests, the Company has
16 indicated that this increase would provide \$77,360 of the proposed revenue
17 requirement sought in this case. [Exhibit 3 attached—Aquarion's response dated
18 October 10, 2012 to Hampton 2-3]. The Town has retained a rate of return
19 expert in this case, David C. Parcell, who has previously filed testimony and/or
20 testified in about 500 utility proceedings before some 50 regulatory agencies in
21 the United States and Canada, dating back to 1972. He has previously presented
22 testimony for the PUC Staff to this Commission in the Pennichuck water cases.

1 The Town is filing with my Testimony, a detailed report by Mr. Parcell in
2 which he recommends that the return on equity for Aquarion be reduced to
3 8.3%. Utilizing the answer Aquarion provided in response to Hampton 2-3, a
4 decrease of 1.95% in the rate of return over what Aquarion is requesting would
5 represent a difference of about \$201,136 in the increased revenue requirement
6 of \$1,113,931 that Aquarion is seeking.

7 **Q. What is the basis for the Town's opposition to making the WICA program**
8 **permanent?**

9 A. In behalf of the Board of Selectmen of Hampton, the Hampton Town Attorney
10 has filed with the Commission a detailed letter dated December 19, 2012 citing
11 the reasons for the Board of Selectmen's opposition to the 2013 WICA
12 surcharge being sought in DW 12-325. The rate of return in that case is based
13 on the same rate of return on equity of 9.75% that was settled upon by others in
14 DW 08-098. The WICA program and the rate of return that it has been based
15 upon for the last 2 years (in DW 10-293 and DW 11-238) has not been re-
16 analyzed. Based upon the frequency of rate increases being sought, the amount
17 of those increases, and Mr. Parcell's testimony, the WICA program should not
18 be made permanent and needs to be fully evaluated, as promised in the
19 Commission's Order No. 25,311 in DW 11-238 (page 5) where the Commission
20 stated "We note Hampton's objections but we conclude that it is prudent to
21 allow the pilot to continue until the time of Aquarion's rate filing, anticipated
22 next year, at which time the pilot will be fully evaluated." (Emphases added).

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1 The Board of Selectmen believe that time is now and that this case should not be
2 viewed in isolation from DW 12-325. The Town would like to note for the
3 Commission that based upon the Company's November 19, 2012 response to
4 Hampton 3-20 [Exhibit 4 attached], the Company intends to seek a step increase
5 in this Docket 12-085 relating to the WICA surcharge that is based upon the
6 incremental portion of the WICA surcharge that is driven by Aquarion's 18.3%
7 rate increase.

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

9 A. Yes, it does, but the Town reserves the right to supplement my testimony and to
10 present the testimony of others in behalf of its positions at the hearing of this
11 matter.

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