

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DW 13-314

2014 WATER INFRASTRUCTURE
AND CONSERVATION ADJUSTMENT FILING

DIRECT TESTIMONY OF

TROY M. DIXON

JANUARY 31, 2014

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

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

8
9 **Q. Please describe your educational background.**

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

12
13 **Q. Please describe your business/professional background.**

14 A. I was hired by Aquarion in February 2003 as a Regulatory Compliance Specialist.
15 During my employment, I have achieved positions of increasing responsibility. In
16 September 2009, I was promoted to my current position. As Director of Rates
17 and Regulation, I am responsible for the preparation and presentation of rate case
18 filings for Aquarion’s regulated water affiliates.

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

22 A. I have provided live testimony before the PUC and submitted written pre-filed
23 testimony in Dockets DW 08-098 and DW 12-085, the Company’s most recent

1 rate cases, and in Dockets DW 10-293 , DW 11-238 and 12-325, the Company's
2 previous WICA filings.

3
4 **Q. What is the purpose of your testimony?**

5 A. My testimony addresses the proposed surcharge related to completed WICA
6 eligible projects placed in service from October 1, 2012 to September 30, 2013
7 and the Company's proposal to defer collection of the surcharge until the
8 Commission has acted on a separate proposal that the Company anticipates filing
9 in the near future relating to a tax benefit resulting from changes to certain
10 Federal tax regulations.

11
12 **Q. Please summarize the basis for the Company's WICA surcharge filing in this**
13 **case.**

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

1 The Company agrees to file the final project costs, supporting
2 documentation and proposed WICA adjustment for completed projects
3 previously determined to be WICA eligible. . . . No project shall be
4 included for recovery in the WICA unless the project is used and useful in
5 providing service to customers or will be used and useful by the effective
6 date of the WICA.

7
8
9 Attachment CM-S1 to Carl McMorran's supplemental direct testimony identifies
10 Aquarion's completed 2013 WICA projects and their respective costs. The
11 resultant surcharge and components are derived in Attachment TD-1 to my
12 testimony. This surcharge incorporates depreciation, property tax expense,
13 income tax expense, and associated return on completed projects.

14
15 **Q. Mr. Dixon, please summarize the surcharge requested in this filing.**

16 A. The 2013 projects listed in Attachment CM-S1 produce a surcharge of 1.3788%
17 to be applied to customers' existing water service billings. The surcharge is
18 applicable to all classes of customers. The WICA mechanism approved by the
19 Commission has an annual cap of 5% and an aggregate cap of 7.5% between rate
20 cases, neither of which is exceeded by the surcharge being proposed here. This is
21 the Company's first WICA filing since its last rate case, when the previous WICA
22 surcharge was subsumed in base rates and the WICA surcharge was reset to zero.
23 Consistent with the settlement in Docket DW 08-098 and as modified in Docket
24 DW 12-325, the Company is seeking authorization to implement this surcharge on
25 a service-rendered basis effective as of April 1, 2014. However, as explained
26 later in my testimony, the Company is requesting that the Commission, rather
27 than ordering the Company to actually collect WICA surcharge revenues from its

1 customers in 2014, authorize the Company to (a) set the WICA surcharge at zero
2 on a temporary rate basis and (b) establish a deferred asset account in which it
3 shall accrue an amount equal to the revenues that would be collected based on a
4 final WICA surcharge of 1.3788% for service rendered as of April 1, 2014.
5

6 **Q. What is the impact to the average residential customer of a WICA surcharge**
7 **of 1.3788%?**

8 A. The typical residential customer using 53,300 gallons of water per year currently
9 pays \$127.60 quarterly under existing rates. A WICA surcharge of 1.3788%
10 would result in an increased cost of \$1.75 per quarter for such a customer, or
11 \$0.58 per month.
12

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

14 A. Attachment TD-1 consists of three pages detailing the calculations of the
15 proposed 1.3788% surcharge.

16 **Page One – Summary Calculation:** This schedule multiplies the September 30,
17 2013 used and useful WICA project totals by the overall rate of return authorized
18 by the Commission in Docket DW 12-325. Additions to this amount are made to
19 account for (1) an income tax gross-up on the equity portion of the rate base
20 investment; (2) depreciation expense; and (3) property taxes reflecting nine
21 months of expense for utility plant additions placed in service between October 1,
22 2012 and September 30, 2013. These components derive a total annual WICA
23 surcharge amount of \$95,688. The surcharge is then taken as a percentage of the

1 last authorized water service revenues (net of miscellaneous charges). The result
2 is a WICA surcharge of 1.3788%.

3 **Page Two – Calculation by Project:** This page shows the calculation of the
4 surcharge on a project by project basis.

5 **Page Three – Detailed Support:** This page identifies additional detail used in the
6 derivation of property taxes and depreciation. Items include (1) PUC account
7 numbers and depreciation rates, (2) project towns and respective property tax mill
8 rates, (3) total and eligible¹ capital dollars, and (4) the associated total and eligible
9 retirements that decrease the property tax and depreciation calculations.
10 Depreciation expense is calculated by reducing the eligible project costs by the
11 amount of eligible retirements and multiplying the resultant figure by the
12 Commission-approved depreciation rates. Property tax is calculated similarly –
13 eligible project costs less retirements multiplied by the most recent mill rate for
14 the respective town. For the requested property tax amounts pertaining to projects
15 completed and included in this filing, the figure is then divided by twelve and
16 multiplied by nine to reflect the fact that the Company will only incur property tax
17 expense for the last nine months of the 2013 surcharge period. Finally, all
18 information on page three is shown on a project by project basis and supports the
19 figures on pages one and two.

¹ Eligible capital costs exclude the first \$50,000 of hydrants, services and valves pursuant to the approved settlement in DW 12-235. The reduction of \$50,000 is made proportionately to the pool of projects. Retirement values are also reduced accordingly.

1

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

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

5

6 **Q. Does the Company also have detailed documentation to support the project**
7 **costs for which the proposed surcharge is applicable?**

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

11 **Q. Why has the Company submitted its filing for the recovery of 2013 WICA**
12 **investment at a later time than its proposed 2014 – 2016 WICA projects?**

13 A. As discussed in its Initial Filing in this docket, the Company is sensitive to
14 customer rate changes. With the implementation of the new permanent rates from
15 DW 12-085 in July of 2013 and the temporary rate and rate case expense
16 surcharges for the same docket in October of 2013, the Company decided to
17 postpone its filing for the current WICA surcharge by three months in an effort to
18 mitigate its impact to ratepayers.

19

20 **Q. Why is the Company proposing to set the WICA surcharge at zero on a**
21 **temporary basis and establish a deferred asset account relating to the**
22 **revenues that it would have collected during the period April 1 through**
23 **December 31, 2014 based on a 1.3788% WICA surcharge?**

1 A. The Company plans to submit a separate filing on or before March 31, 2014 that
2 will propose establishing a credit to customers relating to an anticipated tax
3 benefit. The tax benefit results from a change in federal tax regulations that now
4 allows the Company to expense for tax purposes certain repair and maintenance
5 expenditures that were previously capitalized. The Company is currently going
6 through the process of calculating the tax benefit it anticipates receiving related to
7 utility plant additions for the years 2007 through 2013. The Company plans to
8 propose creating a regulatory liability equal to the amount of the income tax
9 benefit and to amortize that amount over a period of two to three years in the form
10 of a surcredit to be applied to customers' bills effective January 1, 2015.

11

12 **Q. Why is the Company proposing to set the WICA surcharge to zero on a**
13 **temporary rate basis for the remainder of calendar year 2014?**

14 A. The Company believes that, rather than increasing customers' bills to collect the
15 2014 WICA surcharge only to begin refunding monies associated with the tax
16 benefit nine months later, the rate stabilization offered by the Company's proposal
17 in this proceeding is preferable. Thus, the Company plans to propose in its filing
18 regarding the tax benefit that the deferred asset proposed in this Supplement
19 relating to the 2014 WICA surcharge should be netted against the liability to
20 customers associated with the income tax benefit. The Company's specific
21 proposal will be set forth in more detail in its upcoming filing related to the new
22 tax regulations. The Company anticipates that this proposal will stabilize and

1 even lower customer rates over the next several years by passing this income tax
2 benefit through to customers.

3

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

5 **A. Yes.**