

**EXHIBIT**

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DW 16-123

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

DW 16-123

In the Matter of:  
Aquarion Water Company, Inc.  
Petition for Monthly Billing

Direct Testimony

of

Mark A. Naylor  
Director, Gas and Water Division

May 26, 2016

**New Hampshire Public Utilities Commission**

**Aquarion Water Company, Inc.**

**DW 16-123**

**Petition for Monthly Billing**

**Direct Testimony of Mark A. Naylor**

1   **Q. Please state your name, occupation, and business address.**

2   **A. My name is Mark A. Naylor, and I am Director of the Gas & Water Division of the New**  
3   **Hampshire Public Utilities Commission (Commission). My business address is 21 South**  
4   **Fruit Street, Suite 10, Concord, New Hampshire.**

5   **Q. Please describe your qualifications.**

6   **A. I have been employed by the Commission since 1990, and for a substantial portion of my**  
7   **career I have been involved in the regulation of water and sewer utilities. I have been in**  
8   **my present position since 1998. I hold a B.S. degree in Social Sciences and a M.S.**  
9   **degree in Accounting.**

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

11   **A. The purpose of my testimony is to provide Staff's recommendations with respect to**  
12   **certain of Aquarion's requests in this proceeding. These include (1) converting metered**  
13   **and private fire customers from quarterly billing to monthly billing on a service-rendered**  
14   **basis; (2) converting billing for service charges for metered, private fire, and public fire**  
15   **service customers from in-advance to in-arrears; (3) changing Aquarion's payment due**  
16   **date from 30 days to 25 days after the billing date; and (4) Aquarion's request to calculate**

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1       the difference in its working capital related to the proposed billing changes and to defer  
2       that amount annually until recovery can be considered in the company's next rate case.  
3       In addition to my testimony, Staff witness Amanda Noonan is also providing testimony  
4       regarding the issues raised in this docket.

5   **Q. Please summarize Staff's recommendations regarding Aquarion's proposals,  
6       beginning with the conversion to monthly billing.**

7   A. Staff recommends that the Commission approve Aquarion's request to change metered  
8       and private fire customers from billing on a quarterly basis to billing on a monthly basis.  
9       As Aquarion points out in its petition and testimony, monthly billing provides numerous  
10      benefits including the promotion of conservation by providing more frequent usage data  
11      to customers; earlier detection of leaks; greater predictability and budgeting of water  
12      costs for customers; and a reduction in collections costs associated with larger quarterly  
13      bills. This Commission has favored monthly billing in past dockets and Staff believes  
14      this conversion is appropriate and should be approved.

15   **Q. Aquarion proposes to change the billing of its fixed service charge from in-advance  
16       to in-arrears. Does the Staff support this proposal?**

17   A. Yes. Staff recommends that the Commission approve Aquarion's proposal to change  
18       from billing service charges for its metered, private fire, and public fire service customers  
19       from in-advance to in-arrears. The current process of billing service charges in-advance  
20       is a legacy practice in place under prior ownership of this utility. Switching the billing of  
21       service charges to in-arrears will match up the billing of service charges with the billing  
22       of water usage charges, which are also billed in arrears. There will be no impact on the  
23       Company's revenue, nor will there be an impact on the customer's expense. At the time

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1           that new bills are issued following Commission approval, customers will not incur a  
2           service charge until the previously billed “in-advance” charges have expired.

3   **Q. What is Staff’s position on Aquarion’s request to establish a due date for monthly  
4       bills at 25 days following the billing date?**

5   A. Staff supports this change. Aquarion seeks the opportunity to receive and process  
6       customer payments before the next monthly bill is issued. With quarterly billing, this is  
7       not an issue as there is typically about 90 days before the next bill is issued. Staff  
8       believes this change is reasonable.

9   **Q. Now turning to the issue of the allowance for working capital, please summarize  
10      what the company is seeking.**

11   A. Ms. Kirven’s testimony on page 6 describes the impact on the company’s working capital  
12       of moving from quarterly to monthly billing, and the impact of changing the billing of  
13       service charges from in-advance to in-arrears. The net impact of these two changes is an  
14       increase in expense of around \$23,169 annually. Stated differently, if a rate proceeding  
15       was under consideration subsequent to the time of this billing conversion, Aquarion  
16       would be entitled to an additional \$228,268 of working capital in its rate base. Applying  
17       the pre-tax return on rate base of 10.15% from its last rate case, the result is an increase in  
18       the company’s revenue requirement of about \$23,169. Kirven testimony at 6-7.  
19       Aquarion proposes it be permitted to accrue and defer this amount annually until its next  
20       rate proceeding, when it presumably will seek recovery of this accumulated deferred  
21       amount.

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- 1   **Q.   What is Staff's recommendation with respect to this proposal for deferred working**
- 2   **capital?**
- 3   A.   Staff does not support it. An allowance for working capital is provided to compensate the
- 4   utility for the lag time from when it incurs cost to provide service and the rendering of
- 5   payment for that service by customers. While it is acknowledged that working capital
- 6   does represent a cost to the utility, it is not a cash expense. In addition, Staff does not
- 7   believe it is an appropriate practice to accrue and defer for future rate consideration
- 8   changes in costs that occur between rate cases, except in rare or unusual circumstances<sup>1</sup>.
- 9   A utility's costs will always fluctuate between rate cases and the utility is compensated
- 10   for this risk through an allowed return on its equity capital. Further, an increase in one or
- 11   more costs may also be offset through other savings opportunities and through adding
- 12   customers to the utility system. Finally, even if it were otherwise acceptable to defer this
- 13   cost and consider it for future recovery, Aquarion's current earnings are strong and, based
- 14   on its achieved 2015 rate of return, it can easily absorb the cost of the change in working
- 15   capital allowance as well as the incremental costs the company identifies with respect to
- 16   more frequent billing and postage. Attached herein as Attachment MAN-1 is the
- 17   company's response to Staff Tech Session 1-3. As explained in the response, after an
- 18   adjustment to normalize the company's utility operating income, Aquarion earned a
- 19   return of 11.59% on its equity capital in 2015. This can be compared to a return on
- 20   equity of 9.60% granted in the company's last rate case, DW 12-085.
- 21   **Q.   Does this conclude your direct testimony?**
- 22   A.   Yes it does.

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<sup>1</sup> Further support for Staff's position on deferral of costs is the shifting of those costs to future customers, who would be paying both the ongoing cost of that particular item as well as the recovery of the deferred cost from prior years.