



The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 11-43-A

May 18, 2012

Petition of Aquarion Water Company of Massachusetts, Inc., pursuant to G.L. c. 164, § 94, G.L. c. 165, § 2, and 220 C.M.R. § 5.00 et seq., for Approval of a General Rate Increase as set forth in Tariff M.D.P.U. No. 2.

ORDER ON AQUARION WATER COMPANY OF MASSACHUSETTS' MOTION FOR RECALCULATION OR RECONSIDERATION

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I. INTRODUCTION

On May 13, 2011, Aquarion Water Company of Massachusetts (“Aquarion” or “Company”) filed a petition with the Department of Public Utilities (“Department”) for a general rate increase. The Department docketed the matter as D.P.U. 11-43 and suspended the effective date of the tariffs until March 31, 2012, to investigate the propriety of Aquarion’s request. On March 30, 2012, the Department issued its Order in D.P.U. 11-43 and approved the implementation of new rates for Aquarion. Aquarion Water Company of Massachusetts, D.P.U. 11-43 (March 30, 2012).

On April 19, 2012, Aquarion submitted a motion for recalculation¹ (“Motion for Recalculation”) in which the Company asserted that there were calculation errors concerning (1) disallowed charges relating to shared corporate expenses, and (2) pension and post-retirement benefits other than pension (“PBOP”) deferred expense (Motion for Recalculation at 2, 4). No other party commented on this matter.

II. COMPANY’S MOTION

A. Shared Corporate Expense

Aquarion is allocated a share of certain corporate expenses from its parent company, Aquarion Company, for services rendered (1) under a service agreement with Aquarion Water Company, and (2) under a service agreement between Aquarion Company and Macquarie

¹ As an alternative to its request that the Department make certain recalculations from our final Order, Aquarion requests reconsideration if “the Department finds that the issues raised ... are more appropriately, the subject of reconsideration” (Motion for Recalculation at 1). The Department finds that Aquarion has raised issues in the nature of recalculation. Therefore, we treat Aquarion’s motion as one for recalculation and not reconsideration.

Utilities, Inc. (“MUI Agreement”). D.P.U. 11-43, at 133, citing Exhs. AQ-TMD at 16-17; DPU-AQ 1-9, Atts. A, B. The Department allowed Aquarion to recover its share of the corporate services provided under the agreement with Aquarion Water Company.

D.P.U. 11-43, at 139-140.² The Department disallowed Aquarion’s share of management fees related to the MUI Agreement because Aquarion did not demonstrate that the services provided to Aquarion under the MUI Agreement qualified for inclusion in rates. D.P.U. 11-43, at 139.

The Company does not contest the Department’s disallowance of the corporate expenses related to the MUI Agreement. Rather, the Company asserts that in calculating the disallowance, the Department erroneously included expenses that were not related to the MUI Agreement (Motion for Recalculation at 2, citing RR-DPU-6, 2nd Supp., exh. 2, Sch. 12). Specifically, the Company argues that, in calculating the disallowed expenses, the Department inadvertently included the line labeled “Labor & Benefits/Taxes,” which represents costs related to services provided to the Company under the agreement with Aquarion Water Company (Motion for Recalculation at 3, citing Exh. DPU-AQ 4-20, Atts. A, B). The Company asserts that, correcting for this miscalculation, the disallowance associated with the management fees should be \$45,815, not \$86,092 (Motion for Recalculation at 3-4). Therefore, according to the Company, Aquarion’s annual revenue requirement should be increased by the difference between the originally disallowed amount of \$86,092 and the correct disallowance of \$45,815 (i.e., \$40,277) (Motion for Recalculation at 4).

² Aquarion is a wholly owned subsidiary of Aquarion Water Company, which, in turn, is a wholly owned subsidiary of Aquarion Company. D.P.U. 11-43, at 1.

B. Pension and PBOP Expense

The Company asserts that the Department made two calculation errors relating to Aquarion's deferred pension and PBOP expense (Motion for Recalculation at 4-6). First, the Company maintains that in calculating the amount of deferred expense, the Department applied the amount of annual deferred expense of \$231,127 to the pension and PBOP deferral calculations for a time period prior to the effective date of the rates in this proceeding, i.e., April 1, 2012 (Motion for Recalculation at 4). That is, the Company contends that the Department used the pension and PBOP expense allowed in D.P.U. 11-43 to calculate the annual deferred expense, when the Department should have used the difference between (1) the expenses included in the Company's regulatory asset and regulatory liability account, and (2) the Company's actual expenses (Motion for Recalculation at 4-5, citing D.P.U. 11-43, at 105).

Second, Aquarion argues that the Department calculated the total amount of the pension and PBOP deferral through December 31, 2011, rather than through the effective date of the rates in this proceeding, i.e., April 1, 2012 (Motion for Recalculation at 5). Aquarion asserts that these two errors resulted in an incorrect total deferred balance, which the Department then used in its calculation to determine the amortized amount of deferred pension and PBOP expenses (Motion for Recalculation at 6). The Company contends that after correcting these two errors, the Company's total deferred pension and PBOP balances increase from \$877,630 to \$1,028,167, a difference of \$150,537 (Motion for Recalculation at 6). Amortizing the \$150,537 over three years approved in the Order results in an annual recovery amount of

\$50,179, and thus Aquarion asserts that the Company's annual revenue requirement should be increased by that amount (Motion for Recalculation at 6 & Exh. B).

III. STANDARD OF REVIEW

The Department's Procedural Rule, 220 C.M.R. § 1.11(9), authorizes a party to file a motion for recalculation based on an alleged inadvertent error in a calculation contained in a final Department Order. The Department grants motions for recalculation in instances where an Order contains a computational error or if schedules in the Order are inconsistent with the findings and conclusions contained in the body of the Order. Western Massachusetts Electric Company, D.P.U. 89-255-A at 4 (1990); Essex County Gas Company, D.P.U. 87-59-A at 1-2 (1988).

IV. ANALYSIS AND FINDINGS

A. Shared Corporate Expense

In reviewing the record, we find that the Department erred in calculating the management fees to be disallowed. Specifically, the Company is correct in asserting that the Department inadvertently included the line item labeled "Labor & Benefits/Taxes," which constitutes services unrelated to the MUI Agreement (RR-DPU-6, 2nd Supp., exh. 2, sch. 12). The costs included in "Labor & Benefits/Taxes" relate to services provided under the agreement with Aquarion Water Company, and we determined that it was appropriate to permit recovery of such costs. D.P.U. 11-43, at 140, citing Exh. AQ-TMD at 16; RR-DPU-6, 2nd Supp., exh. 2, Sch. 12. Thus, the Department should have calculated the disallowance for expenses related to the MUI Agreement by including only the line labeled

“Management Charge” (RR-DPU-6, 2nd Supp., exh. 2, sch. 12). Based on the calculation error, the amount disallowed should have been \$45,815, rather than \$86,092. See D.P.U. 11-43, at 139-140. Because there was a computational error, the Department grants the Company’s Motion for Recalculation with respect to shared corporate expense. To correct this error, the Department will increase the Company’s revenue requirement by \$40,277, (i.e., the difference between the amount originally disallowed of \$86,092 and the correct disallowance of \$45,815).³

B. Pension and PBOP Expense

In the Order, the Department set new levels for representative amounts of pension and PBOP expense that the Company could recover in rates. D.P.U. 11-43, at 102, 104. In addition, the Department allowed the Company to continue to record the difference between its actual pension and PBOP expense and those pension and PBOP expenses included in rates as either a regulatory asset or a regulatory liability. D.P.U. 11-43, at 105; see also Aquarion Water Company of Massachusetts, D.P.U. 08-27, at 59 (2009); Aquarion Water Company of Massachusetts, D.T.E. 03-91 (2003).

In reviewing the record, we determine that Aquarion is correct in its assertions that the Department made inadvertent errors in the calculation of deferred pension and PBOP expense. Specifically, we recognized that as part of the deferred pension and PBOP expenses, Aquarion sought to include in its deferred account the difference between the expenses allowed in rates

³ This adjustment results in a small increase to the cash working capital allowance, return on rate base, and income taxes. See Section V.D., V.F., and V.H., below.

from D.P.U. 08-27 and the Company's actual expenses. D.P.U. 11-43, at 99.⁴ Such recovery is consistent with Department precedent. Massachusetts Electric Company/Nantucket Electric Company, D.P.U. 09-39, at 221-223 (2009); Bay State Gas Company, D.P.U. 09-30, at 213 (2009); D.P.U. 08-27, at 55-59; Fitchburg Gas and Electric Light Company, D.T.E. 04-48, at 21, 22-24 (2004); NSTAR Pension, D.T.E 03-47-A at 28 (2003). Nonetheless, in calculating the allowed deferred amount, the Department inadvertently reduced the allowed deferral amount by the expenses that the Department permitted Aquarion to recover as pension and PBOP expenses in distribution rates. D.P.U. 11-43, at 105-106. In fact, the pension and PBOP expenses the Department permits a company to recover are calculated using a representative average of such costs over a period of years. See, e.g., D.P.U. 11-43, at 102-103; D.P.U. 08-27, at 56; Massachusetts-American Water Company, D.P.U. 95-118, at 111 (1996); Massachusetts Electric Company, D.P.U. 95-40, at 45 (1995). In calculating the pension and PBOP balance to be amortized, rather than using the difference between the pension and PBOP expenses in the Company's rates from D.P.U. 08-27 and the Company's actual expenses, the Department relied on those representative costs that Aquarion will be allowed to recover on a going-forward basis. D.P.U. 11-43, at 105-106. Using the

⁴ For purposes of this ratemaking mechanism, the Company's actual expenses are those that would be recognized under Statement of Financial Accounting Standards ("SFAS") No. 87 (accounting for pensions) and SFAS No. 106 (accounting for PBOP). D.T.E. 08-27, at 94.

appropriate numbers results in a total deferred pension and PBOP balance of \$1,028,167, which is an increase of \$150,537 from that permitted in D.P.U. 11-43, at 105-106.⁵

Because there was a computational error, the Department grants the Company's Motion for Recalculation with respect to deferred pension and PBOP expense. To correct this error, the Department will increase the Company's revenue requirement by \$50,179 (i.e., the difference between the amount originally allowed of \$877,630 and the correct allowance of \$1,028,167, with the resulting number amortized over three years).⁶

⁵ Correcting this calculation also resolves the other issues raised by the Company, i.e., calculation of the time period for the deferral, and use of overall incorrect amount to calculation amortized amount.

⁶ This adjustment results in a small increase to the cash working capital allowance, return on rate base, and income taxes. See Sections V.D., V.F., and V.H., below.

V. SCHEDULESA. Schedule 1- Revenue Requirements and Calculation of Revenue Increase

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
COST OF SERVICE				
Total O&M Expense	7,220,911	(10,822)	(533,463)	6,676,626
Hingham/Hull WTP Lease and O&M Expense	4,209,178	(2,149)	(5,253)	4,201,776
Depreciation & Amortization	1,470,332	(140,495)	(7,631)	1,322,206
Merchandise and Jobbing Revenue	(23,463)	0	0	(23,463)
WTP Property Taxes	527,065	0	0	527,065
Taxes Other Than Income Taxes	528,075	4,878	0	532,953
Massachusetts Franchise Taxes	181,591	510	(24,358)	157,742
Federal Income Taxes	918,265	2,565	(149,348)	771,482
Deferred Federal Income Taxes	(41,832)	0	990	(40,842)
Deferred State Franchise Taxes	(7,000)	0	0	(7,000)
Return on Rate Base	2,779,794	(133,473)	(212,085)	2,434,236
Total Cost of Service	17,762,916	(278,986)	(931,149)	16,552,781
OPERATING REVENUES				
Operating Revenues	14,914,196	0	0	14,914,196
Revenue Adjustments	49,012	0	0	49,012
Total Operating Revenues	14,963,208	0	0	14,963,208
Revenue Deficiency	2,799,708	(278,986)	(931,149)	1,589,573
Rounding Adjustment to Company Schedules	1,767	(428)	0	1,339
Total Base Revenue Deficiency	2,801,475	(279,414)	(931,149)	1,590,913

B. Schedule 2 – Operations and Maintenance Expenses

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
Test Year Distribution O&M Expense	6,309,599	0	0	6,309,599
ADJUSTMENTS TO O&M EXPENSE:				
Salaries and Wages	77,645	13,388	(12,740)	78,293
Group Medical, Dental, Life, and Disability	29,413	0	0	29,413
Post Retirement Healthcare	77,252	0	(63,917)	13,335
Pension	228,079	0	(167,210)	60,869
Deferred Expense Amortization	342,722	0	0	342,722
Chemicals	(54,556)	0	0	(54,556)
Purchased Electric	(10,769)	0	0	(10,769)
Rate Case Expense	105,000	40,702	(134,062)	11,640
Corporate Insurance	(17,879)	0	0	(17,879)
Corporate Expenses	4,852	0	(45,815)	(40,963)
Shared IT Services	(17,453)	0	(17,246)	(34,699)
Shared Customer Services	9,641	0	0	9,641
Shared Office Costs	7,981	0	0	7,981
Payroll and Benefit Allocations	(2,378)	0	0	(2,378)
Oxford Litigation Expense	33,910	0	(83,641)	(49,731)
Propane	504	451	0	955
Customer Satisfaction Survey	(10,800)	0	0	(10,800)
Leak Detection Survey	16,200	0	0	16,200
Lease Expense	1,400	0	0	1,400
Bad Debt	7,537	0	0	7,537
Unadjusted Test Year Expenses (Inflation)	79,730	8,244	(1,097)	86,877
Lobbying Fees and Meter Error Legal Fees	0	(73,280)	0	(73,280)
Reimbursed Employee Expenses	0	0	(7,055)	(7,055)
Interest on Customer Deposits	0	0	365	365
Total Other O&M Expenses	908,031	(10,495)	(532,418)	365,118
Total Distribution O&M Expense	7,217,630	(10,495)	(532,418)	6,674,717
Bad Debt on Proposed Rate Increase	3,281	(327)	(1,045)	1,909
Total O&M Expense	7,220,911	(10,822)	(533,463)	6,676,626

C. Schedule 3- Depreciation and Amortization Expenses

	<u>PER</u> <u>COMPANY</u>	<u>COMPANY</u> <u>ADJUSTMENT</u>	<u>DPU</u> <u>ADJUSTMENT</u>	<u>PER ORDER</u>
Depreciation Expense	1,470,332	(140,495)	(7,631)	1,322,206
Amortization Expense	0	0	0	0
Total Depreciation & Amortization Expenses	1,470,332	(140,495)	(7,631)	1,322,206

D. Schedule 4- Rate Base and Return on Rate Base

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
Utility Plant in Service	60,227,442	0	(246,156)	59,981,286
LESS:				
Reserve for Depreciation and Amortization	11,758,726	0	(7,921)	11,750,805
Net Utility Plant in Service	48,468,716	0	(238,235)	48,230,481
ADDITIONS TO PLANT:				
Post-Test Year Plant Additions	510,700	61,866	(61,384)	511,182
Cash Working Capital	887,041	(1,294)	(65,647)	820,100
Depreciation Reserve on Retirements	27,471	0	0	27,471
Materials and Supplies	291,756	0	0	291,756
Total Additions to Plant	1,716,968	60,572	(127,031)	1,650,509
DEDUCTIONS FROM PLANT:				
Post-Test Year Plant Retirements	27,471	0	0	27,471
Reserve for Deferred Income Tax	4,714,139	0	0	4,714,139
Customer Contribution	12,427,792	0	0	12,427,792
Customer Advances	80,331	0	0	80,331
Customer Deposits	0	0	750	750
Total Deductions from Plant	17,249,733	0	750	17,250,483
RATE BASE	32,935,951	60,572	(366,016)	32,630,507
COST OF CAPITAL	8.44%	8.02%	-0.56%	7.46%
RETURN ON RATE BASE	2,779,794	(133,473)	(212,085)	2,434,236

E. Schedule 5- Cost of Capital

	PER COMPANY			
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$19,333,001	58.65%	6.28%	3.68%
Preferred Stock		0.00%	0.00%	0.00%
Common Equity	\$13,630,581	41.35%	11.50%	4.76%
Total Capital	\$32,963,582	100.00%		8.44%
Weighted Cost of Debt				3.68%
Equity				4.76%
Cost of Capital				8.44%

	COMPANY ADJUSTMENTS			
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$19,333,001	58.65%	5.55%	3.26%
Preferred Stock		0.00%	0.00%	0.00%
Common Equity	\$13,630,581	41.35%	11.50%	4.76%
Total Capital	\$32,963,582	100.00%		8.02%
Weighted Cost of Debt				3.26%
Equity				4.76%
Cost of Capital				8.02%

	PER ORDER			
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$19,633,001	59.02%	5.52%	3.26%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$13,630,581	40.98%	10.25%	4.20%
			0.00%	0.00%
Total Capital	\$33,263,582	100.00%		7.46%
Weighted Cost of Debt				3.26%
Equity				4.20%
Cost of Capital				7.46%

F. Schedule 6 – Cash Working Capital

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
Other O&M Expense	7,220,911	(10,822)	(533,463)	6,676,626
Less: Bad Debt on Proposed Rate Increase	3,281	(327)	(1,045)	1,909
Merchandising and Jobbing Revenue	(23,463)	0	0	(23,463)
Subtotal - O&M Expense	7,194,167	(10,495)	(532,418)	6,651,254
Lead/Lag Factor	0.12330	0	0	0.12330
Total Cash Working Capital Allowance	887,041	(1,294)	(65,647)	820,100

G. Schedule 7 – Taxes Other Than Income Taxes

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
FICA Taxes	149,549	1,025	0	150,574
Property Taxes	905,591	3,853	0	909,444
Total Taxes Other Than Income Taxes	1,055,140	4,878	0	1,060,018

H. Schedule 8 – Income Taxes

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
Rate Base	32,935,951	60,572	(366,016)	32,630,507
Return on Rate Base	2,779,794	(133,473)	(212,085)	2,434,236
Less: Interest Expense	1,212,043	(138,237)	(10,051)	1,063,755
Net Return on Rate Base	1,567,751	4,764	(202,034)	1,370,481
ADD:				
Book Depreciation	1,470,332	(140,495)	(7,631)	1,322,206
Deferred Federal Income Taxes	(41,832)	0	990	(40,842)
Deferred State Franchise Taxes	(7,000)	0	0	(7,000)
Permanent Differences	76,709	0	0	76,709
Other Timing Differences	271,577	0	0	271,577
Total Additions	1,769,786	(140,495)	(6,641)	1,622,650
LESS:				
Tax Depreciation	1,636,060	(140,495)	0	1,495,565
Total Deductions	1,636,060	(140,495)	0	1,495,565
Taxable Income Base	1,701,477	4,764	(208,675)	1,497,566
Gross Up Factor	1.6454134	1.6454134	1.6205000	1.6205000
Taxable Income	2,799,633	7,839	(380,666)	2,426,806
Mass Franchise Tax (6.50%)	181,976	510	(24,743)	157,742
Adjustment to Book	(385)	0	385	0
Total State Franchise Taxes	181,591	510	(24,358)	157,742
Federal Taxable Income	2,618,042	7,329	(356,308)	2,269,064
Federal Income Tax Calculated	916,315	2,565	(147,398)	771,482
Adjustment to Book	1,950	0	(1,950)	0
Total Federal Income Taxes	918,265	2,565	(149,348)	771,482

I. Schedule 9 - Revenues

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
OPERATING REVENUES PER BOOKS	14,914,196	0	0	14,914,196
Revenue Adjustments				
Bill Analysis Adjustment	1,888	0	0	1,888
Unbilled Sales	2,632	0	0	2,632
Total Revenue Adjustments	4,520	0	0	4,520
Adjusted Operating Revenues	14,918,716	0	0	14,918,716
Other Water Revenues	44,707	0	0	44,707
ADD:				
Bill Analysis Adjustment	215	0	0	215
Total Adjustments	215	0	0	215
Other Revenues and Adjustments	44,492	0	0	44,492
Adjusted Total Operating Revenues	14,963,208	0	0	14,963,208

J. Schedule 10 – Treatment Plant Lease and Operating Expense

	PER COMPANY	COMPANY ADJUSTMENT	DPU ADJUSTMENT	PER ORDER
WTP Lease Expense	3,488,425	0	0	3,488,425
CWC Allowance	36,302	(1,807)	(2,409)	32,086
Tax Grossup on CWC	13,216	0	(2,007)	11,209
Treatment Plant Lease Expense	3,537,943	(1,807)	(4,416)	3,531,720
Property Taxes	527,065	0	0	527,065
Chemical Expense	311,234	0	0	311,234
Power Expense	243,534	0	0	243,534
Waste Disposal Expense	29,552	0	0	29,552
Heating Expense	77,520	0	0	77,520
Total WTP Operating Expense	1,188,905	0	0	1,188,905
Less: Property Tax Expense	527,065	0	0	527,065
Operating Expense Subject to CWC	661,840	0	0	661,840
Cash Working Capital Allowance	6,887	(342)	(457)	6,088
Tax Grossup on CWC	2,507	0	(380)	2,127
Total Operating Expense	671,235	(342)	(837)	670,056
Total Treatment Plant Expense	4,209,178	(2,149)	(5,253)	4,201,776

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.