

**STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY**

APPLICATION OF AQUARION : Docket No. 22-07-01
WATER COMPANY OF CONNECTICUT :
TO AMEND ITS RATES : January 5, 2023

**BRIEF OF WILLIAM TONG, ATTORNEY GENERAL
FOR THE STATE OF CONNECTICUT**

William Tong, Attorney General for the State of Connecticut (“Attorney General”), hereby submits his brief regarding the Aquarion Water Company of Connecticut’s (“Aquarion” or the “Company”) Application to Amend its Rates (“Application”) filed on August 29, 2022. In its Application, Aquarion seeks a three-year rate plan in which it proposes to increase its rates by approximately \$27.5 million in year one of its rate plan (“Rate Year 1”), by an additional \$13.6 million for Rate Year 2, and yet another \$8.8 million for Rate Year 3. Morrissey pre-filed testimony (“PFT”), 13. Aquarion’s proposed rate increase would average 13.9 percent across its service territory in Rate Year 1, with a total increase of 27 percent over the three-year period.

For the reasons stated herein, the Attorney General respectfully submits that the Public Utilities Regulatory Authority (“PURA” or “Authority”) should reject Aquarion’s Application. The Company has failed to meet its burden of showing that such a large rate increase is necessary or appropriate. To the contrary, the evidence in this proceeding clearly shows that Aquarion’s proposed rate increase is excessive and unwarranted.

I. EXECUTIVE SUMMARY

The rates proposed by Aquarion exceed levels that could be considered just and reasonable for the following reasons. First, Aquarion’s proposed ROE is far too high and its proposed capital structure uneconomic and burdensome. The Company’s proposed

ROE is based upon a biased analysis and is inconsistent with current market conditions and recent Authority decisions. The Attorney General recommends that the Aquarion's ROE be reduced for these reasons. The Attorney General recommends the ROE be further reduced to reflect the lower risk profile Aquarion faces as a result of certain statutorily approved revenue stabilizing mechanisms, as discussed below. The Attorney General also recommends against awarding Aquarion any enhanced ROE adder for the Company's acquisition of certain non-viable water systems.

Second, the record in this proceeding shows that Aquarion has overstated a number of its proposed expense items. These expense items include plant additions, executive retirement expenses, directors and officers liability insurance and incentive compensation. These unnecessary and excessive expenses should not be paid by ratepayers.

The adjustments proposed by the Attorney General would reduce Aquarion's proposed revenue requirement by more than \$20 million Rate Year 1, offsetting the vast bulk of Aquarion's proposed \$27.5 million increase for Rate Year 1. Other parties, including the Office of Consumer Counsel ("OCC") and the Authority's Office of Education, Outreach and Enforcement ("EOE"), have also identified the excessive and unnecessary costs in this Application. The Attorney General believes that eliminating or severely reducing these costs represent a substantial first step towards reducing Aquarion's requested rate hike and that the Authority should adopt these recommendations and carefully consider whether Aquarion merits any rate increase at all.

The Authority should also reject Aquarion's proposal to increase its rates in each year of its three-year rate plan and should instead approve only adjustments for Rate Year

1. The Authority should hold Aquarion’s rates steady for the entire three-year plan, with the exception of those increases associated with the company’s Water Infrastructure and Conservation Adjustment (“WICA”).

As the Authority is well aware, Connecticut residents have endured exceptionally difficult circumstances over the past three years. The United States is finally emerging from a two-year public health crisis that created widespread economic dislocation. The economy is now experiencing high inflation, eating away at workers’ incomes. Worse still, the Federal Reserve’s inflation fighting measures are rapidly increasing the costs of borrowing for everything, including home mortgages, car payments and credit card debt, as well as threatening a deep recession in 2023. Finally, in the midst of this economic chaos, electricity supply rates are set to rise to unprecedented levels in Connecticut by January 1, 2023.

Connecticut consumers – especially those on fixed or limited incomes – are simply unable to absorb any further increases in their cost of living. These customers need the Authority and all of the participants in this proceeding to work to ensure that the water utility rates approved here will be no more than absolutely necessary.

II. AQUARION’S APPLICATION

Aquarion is the largest water company in the State of Connecticut, serving approximately 700,000 people in 59 towns and cities across the State. Transcript, 19; Morrissey PFT, 6. Aquarion operates 75 public water systems in the state. *Id.* In its Application, Aquarion proposes to increase its rates by more than \$27 million over the first year of a three-year rate period, with additional increases of \$14 million and \$9 million per year for years 2 and 3 respectively. Morrissey PFT, 13. This represents a

total increase of \$50 million, or more than twenty-seven percent above current rates. The Company further proposes that the Authority authorize Aquarion to earn a return on equity (“ROE”) of 10.35%. Nowak PFT, 6. Aquarion claims that this new 27 percent rate increase is necessary because the Company has: (1) invested more than \$740 million in plant and infrastructure investments since its last rate case in 2013; and (2) experienced increased municipal property taxes. Tr., 19-20; Morrissey PFT, 14-15.

III. DISCUSSION

A. The Authority Should Reject Aquarion’s Proposed ROE and Capital Structure

In its Application, Aquarion proposed that the Authority approve a ROE for the Company’s shareholders of 10.35 percent. Nowak PFT, 6. This ROE, if approved, would be the highest authorized return for any of the State’s principal regulated public service companies. In its most recent rate case decision, the PURA authorized the Connecticut Water Company a return of 9 percent. Final Decision, Docket No. 20-12-30, *Application of the Connecticut Water Company to Amend its Rate Schedule*, 1. The Connecticut Light and Power (“CL&P”) is currently authorized an ROE of 9.25 percent. Final Decision, Docket No. 17-10-46, *Application of the Connecticut Light and Power Company d/b/a/ Eversource Energy to Amend its Rate Schedules*, 18. The United Illuminating Company is currently authorized a return of 9.1 percent. Final Decision, 16-06-04, *Application of the United Illuminating Company to Increase its Rates and Charges*, 1. The Connecticut Natural Gas Corporation (“CNG”) and the Southern Connecticut Gas Company (“SCG”) are authorized to earn a 9.3 percent ROE and 9.26 percent ROE, respectively. Final Decisions, Docket No. 18-05-16, *Application of Connecticut Natural Gas Corporation for a Rate Increase*, 10; Docket No. 17-05-42,

Application of the Southern Connecticut Gas Company for a Rate Increase, 8. The Yankee Gas Company has an authorized ROE of 9.3 percent. Final Decision, Docket No. 18-05-10, *Application of the Yankee Gas Services Company d/b/a/ Eversource Energy to Amend Rate Schedules*, 11.

The Company offers no credible explanation why a relatively low risk operation such as a water utility should be awarded the highest authorized ROE of any of the State's regulated public service companies. All of the electric and gas distribution companies listed above present higher risk profiles for investors than water companies.

As noted by the Office of Consumer Counsel's cost of capital expert:

[a]s shown in Table 5, the water and gas distribution industries are among the lowest risk industries in the U.S. as measured by beta. As such, the cost of equity capital for this industry is amongst the lowest in the U.S., according to the CAPM.

Woolridge PFT, 70.

Aquarion's unreasonable ROE request is based upon a flawed and unreliable cost of capital analysis. First, Aquarion proposed a capital structure that includes an uneconomically high level of equity. In addition, Aquarion's testimony in support of its proposed ROE of 10.35 percent contains serious errors that have distorted the Company's discounted cash flow ("DCF"), expected earnings and capital asset pricing model ("CAPM") analyses and unreasonably inflated its proposed ROE. As a result, the Company's proposed ROE is substantially higher than other similarly situated water utility companies and substantially higher than the levels recently approved for Connecticut's other public service companies.

The Attorney General generally supports the testimony from both the OCC's cost of capital expert, Randall Woolridge, and EOE's cost of capital expert, Aaron Rothschild.

OCC's cost of capital expert recommended an ROE of 9 percent, Woolridge PFT, 4. At the hearing, however, Woolridge testified that, at least for CAPM analyses, capital costs were by some measures lower today than when he provided his testimony. "[I]f I redid it today, I think it would be 8.6 percent, not 9.1 percent."¹ Tr., 1425. EOE's cost of capital expert recommended an ROE of 8.33 percent. Adjusting Aquarion's proposed ROE from 10.35 percent to the more reasonable 8.33 percent to 9 percent would result in a revenue requirement reduction of approximately \$10.4 to \$15.5 million per year.² The Attorney General recommends, however, that the Authority should impose an additional 25 basis point reduction to Aquarion's authorized ROE to reflect the reduced business and operations risk from the revenue and sales decoupling mechanism implement pursuant to Public Act 13-78, *An Act Concerning Water Infrastructure and Conservation* ("P.A. 13-78" or the "Act"). This would result in a further reduction to the Company's revenue requirements of \$1.9 million. LF-1, Revised Schedule A-1.0 A. These cost of capital adjustments alone would eliminate the vast bulk of Aquarion's Year 1 rate increase request of \$27.5 million.

1. The Authority Should Reject Aquarion's Proposed Capital Structure

In its Application, Aquarion proposed a capital structure of 53.06 percent common equity and 46.94 percent debt. Nowak PFT, 53. The Authority should reject the Company's proposed capital structure because it is economically inefficient and does

¹ Woolridge was referring to his CAPM analysis, not his DCF analysis.

² This \$10,386,234 represents 135 basis points difference in ROE times Aquarion's pre-tax revenue requirement of \$7,686,860 for each 100 basis points. LF-1, Revised Schedule A-1.0 A. The \$15,540,884 represents 202 basis points difference in ROE times Aquarion's pre-tax revenue requirement of \$7,686,860 for each 100 basis points. *Id.*

not effectively balance the interests of the Company and its ratepayers. The cost of equity is much higher than the cost of debt. The Company projects its cost of equity as 10.6 percent, its cost of long-term debt as 5.24 percent and its cost of short term debt as 4.28 percent. Woolridge PFT, 4. Moreover, because of the income tax responsibility associated with the use of common equity in the capital structure, that form of capital is nearly three times more costly than debt capital.

The relatively high equity level proposed by Aquarion is particularly unfair because Aquarion's parent company, Eversource, maintains an equity level of 45 percent. Rothschild, 46. Aquarion's equity levels should not be artificially increased over the actual equity level experienced by the parent. The cost of financing the Company's operations is and will remain determined by the capital structure of the parent. Increasing the Company's equity component relative to less expensive debt raises the overall cost of capital and, therefore, is unnecessarily expensive for ratepayers. It simply "may not be fair to charge consumers based on the actual capital structure of a utility that is a wholly owned subsidiary if it has equity that is disproportionately high." Rothschild, PFT, 4.

The Authority has in the past imputed a capital structure on Aquarion more reflective of industry standards. In Docket No. 10-02-13, *Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules*, ("Docket No. 10-02-13"), the Company proposed its capital structure to include 54.94 percent common equity, 40.6 percent long term debt, and 4.46 percent short term debt. Final Decision, 73. The Authority rejected Aquarion's proposed capital structure as too costly.

There is a long history of Aquarion requesting a ratemaking capital structure higher than the average mix used by the water utility industry. In the 2004 and 2007 Aquarion Rate Case Decisions, the Department imposed a ratemaking capital structure on the Company using the highest end of the range of common equity percentage that other firms in the

water utility industry use. This was a conservative approach to guide the Company's understanding and to make it possible for Aquarion to have an easier transition to a lower Common Equity portion. It should be no mystery to the Company what the Department is trying to accomplish. The time has come to make the Company's ratemaking capitalization mix more closely mimic the practices of the water utility industry. Therefore, the Department imposes a 50% Common Equity to 50% Total Debt capital structure for ratemaking purposes.

Final Decision, Docket No. 10-02-13, 85.

Both the OCC's and EOE's cost of capital experts agreed that the Authority should impute a more reasonable capital structure than that proposed by Aquarion. EOE's expert proposed a capital structure that "comprises 48.43% common equity, 48.99% long-term debt, and 2.58% short-term debt." Rothschild PFT, 47. OCC's expert proposed a that "includes 5.47% short-12 term debt, 44.37% long-term debt, and 50.15% common equity." Woolridge PFT, 4.

Reducing the Company's proposed capital structure from 53.06 percent equity to 50 percent equity will reduce Aquarion's revenue requirement by approximately \$2.61 million.³

2. The Authority Should Reject Aquarion's Discounted Cash Flow Analysis and Risk Premium / Capital Asset Pricing Model Analyses of the Cost of Equity

The Authority should reject the Company's ROE testimony because it is less compelling than that presented by either the OCC or EOE. As described by the OCC's consultant:

³ The \$2.61 represents an 18 basis points reduction in the Company's weighted cost of capital from 7.5 percent to 7.32 percent. Based upon the Company's Rate Year 1 rate base of \$1,049,030,306 million, an 18 basis point reduction reduces utility operating income by just under \$1.9 million. Using a revenue conversion factor of 1.381 to estimate the revenue requirement for the 50 percent equity component yields an additional \$703,000 for a total revenue requirement reduction of \$2.61 million.

Mr. Nowak has overstated his reported DCF results in two ways: (1) he has selectively eliminated low-end DCF results; and (2) he has exclusively used the overly optimistic and upwardly biased EPS growth rate forecasts of Wall Street analysts and *Value Line*. On the other hand, when developing the DCF growth rate that I have used in my analysis, I have reviewed thirteen growth rate measures including historical and projected growth rate measures and have evaluated growth in dividends, book value, and earnings per share. In addition, Mr. Nowak's errors are magnified by the fact that he has used a small proxy group.

Woodridge PFT, 6.

Specifically, the Company's discounted cash flow analysis used a growth rate based upon projected earnings per share forecasts by historically optimistic Wall Street analysts and without consideration of the dividend growth rate.

[I]t is well known that the long-term EPS growth rate forecasts of Wall Street securities analysts are overly optimistic and upwardly biased. This has been demonstrated in a number of academic studies over the years. Hence, using these growth rates as a DCF growth rate will provide an overstated equity cost rate. On this issue, a study by Easton and Sommers (2007) found that optimism in analysts' growth rate forecasts leads to an upward bias in estimates of the cost of equity capital of almost 3.0 percentage points.

Woolridge PFT, 48-49. Because Aquarion selectively used an unsustainably high expected growth rate, its DCF model overestimates the true cost of capital and, therefore, its recommended return on equity.

The Company's true cost of capital is simply much lower than presented by the Company's witness. Capital costs remain low generally, and there is now a lower tax rate for investors which has made stock investment more attractive. As the OCC's cost of capital expert concluded, "interest rates and capital are still at historic low levels, utilities have taken advantage of the low yields to raise record amounts of capital, and utility stock prices have held up quite well compared to the overall stock market, which is down 20%" Woolridge PFT, 15. For these reasons, as well as those more fully explained in the pre-filed testimony of Woodridge on behalf of the OCC, and Rothchild

on behalf of EOE, the Attorney General supports a recommended ROE in the range of 8.33 percent to 9 percent.

3. The Authority Should Reduce Aquarion’s ROE to Account for Risk Reducing Effects of the Water Revenue Decoupling Provisions Approved in Public Act 13-78

In addition to the adjustments proposed by the OCC and EOE, the Attorney General recommends that the Authority adjust downward Aquarion’s ROE to account for the substantial impact of Public Act 13-78. Section 3 of the Act provides that the Authority shall implement full sales decoupling by means of a “revenue adjustment mechanism” that “reconciles in rates the difference between the actual revenues of a water company and allowed revenues.” This provision has had a profound impact on water utility companies’ cash flows, revenue stability and financial risk. This decoupling mechanism eliminates the risks of variable weather and sales. As such, the lower business risk associated with this adjustment clause should result in a lower allowed return on equity. This reduction in business risk is reinforced by the Water Infrastructure and Conservation Adjustment⁴ (“WICA”), a mechanism by which water companies can continually roll the cost of new plant investment into their rates.

The Attorney General recognizes that the Authority has in the past declined to impose such a reduction. Nonetheless, during questioning from the Chairman, OCC’s

⁴ Public Act 07-139, An Act Concerning Water Company Infrastructure Projects, provides that water companies may apply for a water infrastructure and conservation adjustment in their rates. The practical effect of this WICA adjustment is to allow water companies to immediately include the costs of new incremental plant investment into their rates, reducing the regulatory lag associated with such investment and reducing risk to the Company’s shareholders. The purpose of this law is to encourage water companies to make continuous investment to improve their infrastructure rather than to wait until just before a rate proceeding. Codified at Conn. General Statutes § 16-262w.

witness acknowledged that the revenue decoupling mechanism, earning sharing and WICA mechanisms all combine to make a company less risky. “I think it clearly makes it less risky. The question is, is it less risky relative to the proxy group.” Tr., 1449.

The Attorney General submits, however, that the proxy group used by both the Company and the OCC contains six gas companies as well as six water companies. Gas companies do not have the WICA and may, therefore, be more risky. The Attorney General continues to believe that there should be an acknowledgement in this case of the reduced business risk reflected in the Company’s authorized ROE. A 25 basis point reduction would amount to an additional reduction to the company’s revenue requirements of approximately \$2,000,000. LF-1, Revised Schedule A-1.0 A.

4. The Authority Should Reject Any Return on Equity Premium for Acquiring Non-Viable Water Companies

In its Application, Aquarion seeks a 25 basis point premium in its authorized ROE to reward shareholders for their acquisition of certain small non-viable water systems, including Interlaken Water Company, Bedrock Water Association, Hickory Hills Corporation, Litchfield Hills Condominium Associating and Magnolia Gardens, LLC. Nowak PFT. This premium would cost Aquarion’s ratepayers an additional \$1.9 million per year, or nearly \$6 million over the three-year rate plan.

The Authority should reject this proposed premium. In 2013, the Connecticut legislature passed Public Act 13-78, which provided that the Authority may allow a premium rate of return to a water company that has acquired other non-viable water systems since its last rate case. Specifically, Connecticut General Statutes Section 16-262s(b) states:

[i]n the case of a proposed acquisition of a water company that is not economically viable, as determined by the Public Utilities Regulatory Authority

in accordance with the criteria provided in subsection (b) of section 16-262n, by a water company that is economically viable, as determined by the authority in accordance with said criteria, the authority may, as part of the acquiring water company's next general rate case, award a premium rate of return to such acquiring water company when it is demonstrated that such proposed acquisition will provide benefits to customers by (1) enhancing system viability, or (2) avoiding capital costs or saving in operating costs, or as otherwise determined by the authority.

The Attorney General does not dispute the public policy that encourages financially stable water companies to purchase failing water systems. The Act makes clear, however, that the Authority's determination to award a premium ROE is discretionary. For the following reasons, the Authority should exercise its discretion and decline to award any premium. First, the Company is already benefitting from the opportunity to substantially increase its ratebase and earn a return on that investment. Second, Aquarion's ratepayers are already shouldering the additional costs of purchasing and restoring those systems to viability. These systems will likely require substantial infrastructure investment at the expense of existing ratepayers. That should be enough. Aquarion's ratepayers have already done their share to promote the public good; they should not have to fund premium ROEs in addition. The Authority should decline to impose any further burden on Aquarion's ratepayers.

B. The Authority Should Reject Aquarion's Proposed Revenue Requirements

In its Application, Aquarion overstated a number of revenue and expense items. Taken together with the Attorney General's recommended changes to the Company's proposed ROE and capital structure, the revenue and expense adjustments proposed herein and by the OCC eliminate the need for the great bulk – if not all - of the Company's requested rate increase. The following discussion addresses a few of the more notable adjustments to ratebase, revenue and expense items that the Authority

should impose. In addition to addressing the merits of these particular proposals, these adjustments are intended to provide examples of the many revenue requirement adjustments that are warranted in this case and are not intended to represent an exhaustive list.

1. The Authority Should Reject Aquarion’s Pro Forma Plant Additions That Are Not Used And Useful

In its Application, the Company proposed in ratebase certain plant additions that are not substantially completed as yet and, therefore, are not used and useful for its inclusion in ratebase. The OCC’s expert witness John Defever proposed to remove all plant additions that are not at least 75 percent completed by the last day of the hearings in this matter. Defever PFT, 5. This is consistent with the Authority’s final decision in its most recent water utility rate increase application in Docket No. 20-12-30, *Application of the Connecticut Water Company to Amend its Rates*. See, Final Decision, Docket No. 20-12-30, 66 (July 28, 2021).

The Attorney General supports this adjustment, which removes \$14,227,148 from Aquarion’s rate base. Defever PFT, 5. This adjustment would further reduce Aquarion’s depreciation expense by \$537,470 Defever PFT, 26; Exhibit JD-1, Schedule C-14.

2. The Authority Should Reject Ratepayer Funding of Directors and Officers Liability Insurance

In its Application, Aquarion included \$32,940 for Directors and Officers Liability Insurance (“D&O”) in the test year. Aquarion claims that D&O insurance is recoverable from ratepayers as a prudent and necessary expense and that it will not be able to attract qualified individuals to serve on the board without it.

The Authority should reject Aquarion's request to have ratepayers fund 100 percent of D&O insurance and, consistent with past rate decisions, allow no more than 25 percent of this cost be allocated to ratepayers. *See* Docket Nos. 16-06-04, *Application of The United Illuminating Company To Increase Its Rates And Charges*; 13-01-19, *Application of The United Illuminating Company To Increase Rates And Charges*; and 13-06-08, *Application of Connecticut Natural Gas Corporation To Increase Its Rates And Charges*. D&O insurance provides protections for the Company's Officers and Directors from damages that result from acts taken in their official capacity. These lawsuits are principally brought by shareholders. These costs should not be an exclusive ratepayer obligation. The Authority should therefore disallow at least \$24,705 from Aquarion's revenue requirements.

3. The Authority Should Reject Aquarion's Proposed Employee Incentive Compensation

In its Application, Aquarion proposes that its customers fund incentive plans that would pay the Company's employees \$1,432,088 in incentive bonuses. The Company proposes that 100 percent of these costs should be funded by its ratepayers.

The Attorney General opposes this ratepayer funded incentive plan, particularly for executives and officers. These proposed bonus plans are designed to achieve certain financial goals that serve to benefit the Company's shareholders and not its ratepayers. Ratepayers should not be forced to fund incentive plans that benefit the Company's shareholders, especially when so many Connecticut ratepayers are in difficult economic circumstances.

Moreover, the Company's incentive program does not appear to be structured to provide any "incentive," but rather appears to be a base compensation measure under

another name. As indicated in OCC-32, since 2017 only two of 1379 eligible employees did *not* receive an incentive payment – a .0015 probability of *not* receiving a bonus. The OCC proposes a disallowance of at least 70 percent of this compensation (the amount directly linked to the Company’s financial performance). Defever PFT, 14-15. The Attorney General, however, recommends that the PURA should eliminate the entire \$1,432,088 from the Company’s revenue requirements and from rates. This would not be inconsistent with the PURA’s decision in the recent Connecticut Water rate case, where the Authority eliminated 95 percent of its incentive compensation. Final Decision, Docket No. 20-12-30, *Application of the Connecticut Water Company to Amend its Rates*, 9-10.

4. The Authority Should Reject Aquarion’s Supplemental Executive Retirement Plan

Aquarion seeks to recover \$13,746 in Supplemental Executive Retirement Plan (“SERP”) benefits for executives. SERP payments are allegedly designed to provide post-retirement payments for executives that are similar to the pensions received by non-executives relative to their pay.

The PURA should remove 100 percent of SERP from the Company’s rates, which would result in a reduction in the Company’s revenue requirements of \$13,746. This is consistent with the Authority’s previous treatment of SERP costs. The Authority rejected recovery of SERP costs in Aquarion’s last rate case. See Final Decision, Docket No. 13-02-20, *Application of the Aquarion Water Company to Amend its Rates*, 68-69.

Connecticut Water quite properly did not even request that SERP costs be funded by ratepayers. See Final Decision, Docket No. 20-12-30, *Application of the Connecticut Water Company to Amend its Rates*, 9-10.

5. Other Adjustments Proposed by OCC

The Attorney General supports the many other adjustments proposed by the OCC in this matter. These include adjustment to plant in service, working capital, inflation expense, full time employees, non-industry dues, lobbying and entertainment expenses. Cumulatively, these adjustments, together with those proposed by the Attorney General, should allow the Authority to reject the great bulk of Aquarion’s proposed rate increase.

D. The Authority Should Reject Aquarion’s Proposed Three Year Rate Plan

In its Application, Aquarion proposed to increase its rates in each of the three years in its rate plan. The Company testified that this was to provide “rate stability” and “providing a predictable rate path over the rate plan period.” Morrissey PFT, 17. The Company argues that “PURA has approved multi-year rate plans for all of Connecticut’s electric and gas utilities.” *Id.*

The Authority should reject Aquarion’s proposal for annual rate increases for its proposed three-year rate plan. First, Aquarion is not similarly situated to electric and gas utilities in the state that have multi-year rate plans. As discussed above, Aquarion already has a WICA mechanism, under which Aquarion can annually incorporate new investment into ratebase and earn a return on that ratebase. That is, Aquarion already has a statutory ability to incorporate new investment and earn a return on that investment. The limit for WICA increases is 5 percent for any one year and 10 percent cumulative between rate cases. That should be enough. Aquarion simply does not need yet another vehicle to recover higher rates from ratepayers.

IV. CONCLUSION

The \$27.5 million rate increase requested by Aquarion for its Year 1 rate year is unwarranted at this time and would result in rates that are more than just and reasonable. In addition, the requested increases of \$14 million and \$9 million for Rate Years 2 and 3 are unnecessary and should be stricken in their entirety. The Attorney General has proposed certain reasonable adjustments to the Company's authorized ROE and capital structure, as well as additional ratebase, expense and revenue adjustments that the Authority should approve, that would save ratepayers more than \$20 million per year and maintain rates at reasonable levels. The itemization of adjustments discussed herein is by no means meant to provide an exhaustive list. The Attorney General concurs with many of the other adjustments recommended by the OCC in this case. The Attorney General urges the Authority to adopt these specific rate reduction recommendations as a first step and then determine whether and to what extent any rate increase is appropriate for Aquarion. The Authority should strive to find ways to lower customer bills.

For the foregoing reasons, the Attorney General respectfully requests that the Authority reject Aquarion's rate Application. The Authority should instead approve rates as described herein.

Respectfully Submitted,

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