

**STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY**

APPLICATION OF THE CONNECTICUT : Docket No. 20-12-30
WATER COMPANY TO AMEND ITS :
RATES : May 18, 2021

**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 Connecticut Water Company’s (“CT Water” or the “Company”) Application to Amend its Rate Schedule (“Application”) filed on January 15, 2021. In its Application, CT Water proposes to increase its rates by approximately \$20 million. Application, 1, Late Filed Exhibit (“LF”) 2, Schedule A-1.0. CT Water’s proposed rate increase would average nearly 20 percent across its service territory. Application, 1.

For the reasons stated herein, the Attorney General respectfully submits that the Public Utilities Regulatory Authority (“PURA” or “Authority”) should reject CT Water’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 CT Water’s proposed rate increase is excessive and unwarranted.

The Attorney General has identified a number of unnecessary expense items for which the Authority should disallow recovery from ratepayers. The adjustments proposed by the Attorney General would reduce CT Water’s proposed revenue requirement by more than \$18 million per year, offsetting the vast bulk of CT Water’s proposed \$20 million increase. Other parties have also identified excessive and unnecessary costs in this Application that should be considered in addition to those

identified herein. The Attorney General believes these cuts represent a substantial first step towards reducing CT Water's requested rate hike and ensuring that CT Water's rates are no more than just and reasonable.

I. CT WATER'S APPLICATION

CT Water is the second largest water company in the State of Connecticut, serving more than 360,000 people in 60 towns and cities across the State, as well as 10,000 wastewater customers in Southbury, CT. Transcript, 26; Westbrook Pre-Filed Testimony ("PFT"), 5. It includes the operating companies CT Water, The Avon Water Company ("AWC") and The Heritage Village Water Company ("HVWC"). CT Water has acquired sixty smaller water systems in the past twenty-five years. Tr., 29. In its Application, CT Water proposes to increase its rates by more than \$20.2 million above what is currently authorized in rates. Westbrook PFT, 12.

The Company further proposes that the Authority authorize CT Water to earn a return on equity ("ROE") of 10.4%. Westbrook PFT, 11. This proposed ROE includes a 50 basis point premium rate of return for the acquisition of "non-viable" water systems. Application, 3. CT Water claims that this new 20% rate increase is necessary because the Company has invested more than \$266 million in plant and infrastructure investments since its last rate case. Tr., 27; Westbrook PFT, 12.

The rates proposed by CT Water far exceed levels that could be considered just and reasonable for the following reasons. First, CT Water's proposed ROE is far too high and its proposed capital structure is uneconomic and burdensome. The Company's proposed ROE is based upon a flawed analysis and is out of touch with current market conditions and recent Authority decisions. Second, the record in this proceeding shows that CT Water has overstated a number of its expense items. These expense items include

directors and officers liability insurance, fees and dues, bad debt calculations, lobbying costs and incentive compensation.

As the Authority is well aware, Connecticut's utility ratepayers have endured relentless rate increases over the past eight years. Connecticut's electricity prices alone are currently the highest in the continental United States. Moreover, Connecticut and the United States are enmeshed in the second profound and deep economic contraction in the past decade. Unemployment in the State remains well over 8%, higher than the national average.¹ Connecticut consumers – especially those on fixed or limited incomes – are simply unable to absorb any further increases in their cost of living. These customers are entitled to expect that the Authority and all of the participants in this proceeding will work to ensure that the water utility rates approved will be no more than absolutely necessary.

II DISCUSSION

A. The Authority Should Reject CT Water's Proposed ROE and Capital Structure

In its Application, CT Water proposed that the Authority approve a ROE for the Company's shareholders of 10.4%. Bulkley PFT, 102. This 10.4% recommendation is based upon a recommended base ROE of 9.9% together with a 50 basis point premium for acquiring a non-viable water system. This ROE, if approved, would be the highest authorized return for any of the State's principal regulated public service companies. The Connecticut Light and Power ("CL&P") is currently authorized an ROE of 9.25%. 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

¹ [Connecticut Unemployment Rate \(ycharts.com\)](http://ycharts.com)

Illuminating Company is currently authorized a return of 9.1%. 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% ROE and 9.26% 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%. 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 Aquarion Water Company has an authorized ROE of 9.63%. Final Decision, Docket No. 13-02-20, *Application of the Aquarion Water Company of Connecticut to Amend its Rates*, 115.

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:

As shown in Exhibit JRW-6, 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, 58.

CT Water’s unreasonable ROE request is based upon a flawed and unreliable cost of capital analysis. First, CT Water proposed a capital structure that includes an uneconomically high level of equity. In addition, CT Water’s testimony in support of its

proposed ROE contains errors that have distorted the Company's discounted cash flow ("DCF") 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 OCC's cost of capital testimony with its recommended ROE of 8.7%, Woolridge PFT, 4. Adjusting CT Water's proposed ROE from 10.4% to the more reasonable 8.7% would result in a rate reduction of approximately \$7 million per year.² The Attorney General believes, however, that the Authority may wish to consider revising its current practice of relying on the DCF analysis to the exclusion of the CAPM. In the event the Authority were to select a midpoint range from the OCC's CAPM recommendation of 7.3% ROE and the DCF recommended 8.7% ROE that would yield a recommended ROE of 8%. This 70 basis point reduction in ROE would translate into an additional reduction of the Company's revenue requirement of \$2,882,697. LF-1, Revised Schedule A-1.0 A.

The Attorney General further believes that the Authority should impose an additional 50 basis point reduction to CT Water's authorized ROE to reflect the reduced business and operations risk from the revenue and sales decoupling mechanism implemented in response to Public Act 13-78, *An Act Concerning Water Infrastructure and Conservation* ("P.A. 13-78" or the "Act"). This will result in a further reduction to the Company's revenue requirements of \$2 million. LF-1, Revised Schedule A-1.0 A.

² This \$7,000,835 represents 170 basis points difference in ROE times CT Water's pretax revenue requirement of \$4,118,138 for each 100 basis points. LF-2, Revised Schedule A-1.0 A.

1. The Authority Should Reject CT Water's Proposed Capital Structure

In its Application, CT Water proposed a capital structure of 52.73% common equity and 47.33% debt. LF-2, Attachment A-1.0; Bulkley PFT, 96. The Authority should reject the Company's proposed capital structure because it is economically inefficient and does 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 10.4%, its cost of long term debt as 3.45%. 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. Increasing the Company's equity component relative to less expensive debt raises the overall cost of capital and, therefore, is unnecessarily expensive for ratepayers. Woolridge PFT, 23.

The Attorney General believes the Authority should impute a capital structure of 48% equity and 52% debt. This equity ratio is well above the average of the thirteen proxy group utilities used by both the Company and the OCC. Woolridge PFT, Exhibit JRW-4. Indeed, the average equity ratio was 46.1% for the gas utilities and 49% for the water companies. *Id.* The Authority has consistently imputed more reasonable capital structures on utilities when their proposed structure has become unduly burdensome for ratepayers, both as a means to reduce costs and to guide and encourage companies to adjust their debt to equity levels appropriately. For example, in 2010 the Authority rejected Aquarion Water Company's proposed capitalization of nearly 55% equity as too costly. The Authority concluded:

[t]here 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, *Application of CT Water Company of Connecticut for Amended Water Service Rate Schedules*, 85. The Authority should make a similar adjustment here. Reducing the Company's proposed capital structure from 52.73 percent equity to 48 percent equity will reduce CT Water's revenue requirement by approximately an additional \$2 million.³ In the alternative, if the Authority accepts the 52.73 equity levels the Authority should adjust the authorized ROE downward to reflect the decreased risk associated with the lower debt levels.

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

The Authority should reject the Company's ROE testimony because it is upwardly biased and less compelling than that presented by the OCC. The Attorney General generally supports the principal reliance upon the discounted cash flow analysis as opposed to determinations of market risk premium. Both the OCC and the Company began with the same proxy group of six water companies and seven gas distribution

³ The \$2 million represents an estimate of the reduction in the Company's weighted cost of capital.

companies.⁴ Woolridge PFT, 17. Both the OCC and the Company employed the constant-growth DCF model. Woolridge PFT, 5. OCC's witness, however, identified a number of distortions to the Company's testimony and cost of capital analysis generating an upward bias in the results. Specifically, the Company's witness selectively applied exclusion criteria in its proxy groups, and used upwardly biased growth rate and earnings per share forecasts.

For example, the Company's testimony failed to provide symmetrical treatment of its identification of outliers for its DCF analysis.

Ms. Bulkley has eliminated all DCF results below 7.0% because she believes that they are too low. In this case, this does not materially impact her DCF results. However, it does highlight another issue with her DCF study. Whereas she claims that 7.0% is a filter to identify an extreme low-end outlier, she does not believe that there should be a filter to identify an extreme high-end outliers. In other words, I can identify an individual ROE that is too low, but there are no individual ROEs that are too high. This results in an asymmetric approach to identify outliers – throw out the low ones but not the high ones.

.....

But on the other side, she includes a DCF ROE of 17.41% for South Jersey Industries in her DCF ROE calculation. It was noted earlier that the average authorized ROE in 2020 for water companies was 9.04% in 2020. How is a DCF ROE of 5.97% is extreme low outlier, and a DCF ROE of 17.14% not an extreme high outlier, when the average is 9.04%.

Tr., 61-2.

In addition, the Company's discounted cash flow analysis used a growth rate exclusively based upon projected earnings per share forecasts by historically optimistic

⁴ The relatively small sample size of regulated water companies reduces the financial data necessary to support a robust DCF analysis. Consultants for both the Company and the OCC responded to the paucity of reliable data by including in their proxy group analysis entities that were not water companies. It is important to remember, however, that water utilities present a lower beta – and therefore a lower risk profile – than gas companies.

Wall Street analysts and without consideration of the dividend growth rate. Woolridge PFT, 64.

First, the appropriate growth rate in the DCF model is the dividend growth rate, not the earnings growth rate. Nonetheless, over the very long term, dividends and earnings will have to grow at a similar growth rate. Therefore, consideration must be given to other indicators of growth, including prospective dividend growth, internal growth, as well as projected earnings growth. Second, a 2011 study by Lacina, Lee, and Xu has shown that analysts' long-term earnings growth rate forecasts are not more accurate at forecasting future earnings than just using last year's earnings figure as the projected future earnings number. Employing data over a 20- 22 year period, these authors demonstrate that using the most recent year's EPS figure to forecast EPS in the next 3-5 years proved to be just as accurate as using the EPS estimates from analysts' long-term earnings growth rate forecasts. In the authors' opinion, these results indicate that analysts' long-term earnings growth rate forecasts should be used with caution as inputs for valuation and cost of capital purposes. Finally, and most significantly, it 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, 63-4. Because CT Water selectively used an unsustainably high expected growth rate, its DCF model overestimates the true cost of capital and, therefore, its recommended return on equity.

Similarly, in its capital asset pricing module ("CAPM") analysis, the Company has substantially overestimated the risk premium ("RP") to be applied in this case. The RP, in short, represents the investors' expected value for the increased risk associated with a stock offering as compared to a more secure bond instrument such as United States Treasury bills. The problem in any RP analysis, however, concerns the inherent uncertainty of measuring that investor's future expectation. Moreover, the most used

measure of RP, average projected growth rate for equities, is unreasonably high. As the OCC witness stated:

But, you know, in the end, let's face it, when the average projected growth rate is 13 percent still for the S&P 500, or whatever it is, that, the fact is companies can't grow at 13 percent in a 4 percent economy. I have mentioned this a number of times. So, you know, but, you know, the upward bias, I mean, it's well known. It has been around forever and, you know, it just, it creates inflated cost of equity estimates for both the DCF and for the CAPM.

Tr., 932-33.

The Company's true cost of capital is simply much lower than presented by the Company's witness. Capital costs are down generally, there has been an overall decline in interest rates and there is now a lower tax rate for investors and corporate income tax rates which has made stock investment more attractive. As a result of the effects of the current economic downturn, the capital costs for utilities have remained low.

The Attorney General generally supports the OCC's DCF and CAPM analyses, which places the equity cost rate range in the proxy group from 7.3% (CAPM) to 8.7% (DCF). Woolridge PFT, 58. The OCC relies principally on its DCF analysis and recommends a final ROE of 8.7%, at the high end of the range of reasonableness. *Id.* The Authority may wish, however, to reconsider its exclusive reliance on the DCF analysis and instead consider DCF together with CAPM. On May 21, 2020, the Federal Energy Regulatory Commission ("FERC" or the "Commission") issued Order No. 569-A,⁵ together with a policy statement⁶ revising its previous methodology using the DCF

⁵ [https://www.wrightlaw.com/62D00A/assets/files/documents/E-1%20Order%20\(Docket%20No.%20EL14-12-004,%20EL15-45-013\)%20\(W0225403x8DF47\).PDF](https://www.wrightlaw.com/62D00A/assets/files/documents/E-1%20Order%20(Docket%20No.%20EL14-12-004,%20EL15-45-013)%20(W0225403x8DF47).PDF)

⁶ [171 FERC ¶ 61,155 \(wrightlaw.com\)](#)

capital cost model and instead using an average of the DCF, CAPM and Risk Premium analyses. Consistent with this new FERC policy the Authority may wish to reflect both the DCF and CAPM results in determining the final ROE for CT Water. If so, the Attorney General recommends the Authority select the midpoint between the CAPM and DCF results, or a base ROE of 8%.

For these reasons, as well as those more fully explained in the pre-filed testimony of Woolridge on behalf of the OCC, the Attorney General supports a recommended base ROE of 8%. This base ROE would reduce CT Water's revenue requirement from its proposed ROE of 10.4 by \$9,883,532.⁷

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

In addition to the adjustment proposed by the OCC, the Attorney General further recommends that the Authority adjust downward CT Water'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 new 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

⁷ This \$9,883,532 represents 240 basis points difference in ROE times CT Water's pretax revenue requirement of \$4,118,138 for each 100 basis points. LF-2, Revised Schedule A-1.0 A.

and Conservation Adjustment⁸ (“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, the Attorney General believes that there should be some significant acknowledgement in this case of the reduced business risk reflected in the Company’s authorized ROE. A 50 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, CT Water seeks a 50 basis point ROE premium for its 2017 acquisitions of the Avon Water Company (“AWC”) and the Heritage Village Water Company (“HVWC”). The Company’s witness subsequently amended her testimony to withdraw the recommendation concerning Avon Water. Tr., 945. The Authority should reject this 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

⁸ 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.

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 Act makes clear 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 has made no demonstration that the acquired water systems were nonviable. The First Selectman of Southbury, Jeffrey Manville, was quite clear on that:

[w]e would also note that Connecticut Water rates increase requests include an enhancement of 50 basis points for taking over so-called nonviable smaller systems like, such as Heritage Village Water. We reject the premise of this request. Heritage Village Water was, and is, a viable system. In fact, in 2016 Connecticut Water fought the Town of Southbury in a court, in court to defeat Southbury's Right of First Refusal to purchase Heritage Village Water. If Heritage Village Water was a nonviable company, then why did Connecticut Water fight a court battle to be able to purchase Heritage Water? We also believe that Connecticut Water ultimately acquired Heritage Village Water in 2016 at a significant discount from its market value because of the tax incentives built into that transaction. So we do not accept the idea that Connecticut Water is entitled to a rate enhancement because it took over Heritage Village Water.

Tr., 23-4.

Second, the award of an enhanced ROE to CT Water in this case simply places additional unfair burdens on CT Water's existing ratepayers who will already be paying higher rates to support the acquisition of those new water systems. Woolridge PFT, 87. These systems will likely require substantial infrastructure investment at the expense of existing ratepayers. The Authority should decline to impose any further burden on CT Water's ratepayers.

C. The Authority Should Reject CT Water’s Proposed Revenue Requirements As Discussed Herein

In its Application, CT Water overstated a number of revenue and expense items. Taken together with the Attorney General’s recommended changes to the Company’s proposed ROE, the revenue and expense adjustments eliminate the need for the great bulk of the Company’s requested rate increase. The following discussion addresses a few of the adjustments to larger rate base, 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 Ratepayer Funding of Directors and Officers Liability Insurance

In its Application, CT Water included \$413,017 for Directors and Officers Liability Insurance (“D&O”) in the test year. CT Water 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 CT Water’s request to have ratepayers fund 100% of D&O insurance and, consistent with past rate decisions, allow no more than 25% 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 \$309,763 from CT Water's revenue requirements.

2. The Authority Should Reject Ratepayer Funding of Board of Directors Fees

In its Application, CT Water included \$439,000 for Board of Directors fees in the test year. OCC-7. CT Water claims that these fees are recoverable from ratepayers as a prudent and necessary.

The Authority should reject CT Water's request to have ratepayers fund 100% of the Board of Directors fees and, consistent with past rate decisions, allow no more than 25% 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*; and 13-01-19, *Application of The United Illuminating Company To Increase Rates And Charges*. Just as with D&O insurance above, these fees serve the interests of shareholders. The Authority should therefore disallow at least \$329,250 from CT Water's revenue requirements.

3. The Authority Should Reject CT Water's Proposed Employee Bonus Programs Funding

In its Application, CT Water proposes that its customers fund incentive plans that would pay the Company's employees \$220,234 in incentive bonuses. OCC-32. The Company proposes that 100% of these costs should be funded by its ratepayers.

The Attorney General opposes this ratepayer funded incentive plan, particularly for executives and officers. This expense has not been recovered in previous rate cases. OCC-65. Ratepayers should not be forced to fund incentive plans that appear to benefit the Company's shareholders, especially when so many Connecticut ratepayers are in dire

economic circumstances. The Authority should therefore eliminate the entire \$220,234 from the Company's revenue requirements and from rates.

5. Other Adjustments Proposed by OCC

The Attorney General supports the many adjustments proposed by the OCC in this matter, which total approximately \$4 million. Defever PFT, Exhibit JD-1. These include adjustment to plant in service, payroll expense, lobbying costs, dues and memberships, bad debt expense and consulting fees. Cumulatively, these adjustments, together with those proposed by the Attorney General, should allow the Authority to reject the great bulk of CT Water's proposed rate increase.

E. The Authority Should Proceed with Rate Equalization Deliberately and Slowly to Minimize Rate Shock

The Authority has repeatedly sought to have the state's regulated water companies take steps to move toward rate equalization over their various service territories. The Attorney General generally supports the goal of rate equalization. Over the long term, overall costs to serve customers should converge as new infrastructure investment replaces older depreciated plant. Certain costs, such as the "meter charge," are designed to recover system wide costs that are already mostly the same for customers regardless of their service territory. These costs, which include meter reading, billing, customer service and general overhead, should be standardized across all CT Water's water systems to prevent cross-subsidization among the different systems. The consumption costs for water, however, may vary throughout the service territories reflecting the relative costs of providing water. Certain regions may simply have lower costs to provide water service, and those regions' rates should reflect that cost differential. The Attorney General therefore recommends that the Authority design a rate equalization program that

gradually moves CT Water's customers to more standard rates over the next three or four rate cases, or a period of twelve to fifteen years. This should help protect customers from the rate shock that immediate rate equalization might engender, while avoiding long term cross-subsidization of rates among the various water system regions.

III. CONCLUSION

The \$20 million per year rate increase requested by CT Water is unwarranted and would result in rates that are more than just and reasonable. The Attorney General has proposed certain reasonable adjustments to the Company's authorized ROE and capital structure that would save ratepayers nearly \$14 million per year and help maintain rates at reasonable levels. In addition, the Attorney General has identified additional rate base, expense and revenue adjustments that the Authority should approve, further reducing CT Water's revenue requirement by more than \$4 million per year. Defever PFT, Exhibit JD-1. 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 CT Water. The Authority should strive to find ways to keep customers' bills as stable as possible.

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

Respectfully Submitted,

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