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August 10, 2006

Marcia Thunberg, Esquire  
New Hampshire Public Utilities Commission  
21 S. Fruit Street, Suite 10  
Concord, NH 03301-2429

Re: DW 06-094; Aquarion Water Company of New Hampshire

Dear Attorney Thunberg:

Enclosed are Aquarion's responses to Staff's second set of data requests 1-12 in this docket. If you have any questions at all about the enclosed, please feel free to give me a call

Sincerely,

Steven V. Camerino

SVC:cb

Enclosures

cc: Service List  
Larry Bingaman  
Linda Discepolo

ORIGINAL	
N.H.P.U.C. Case No.	DW 06-094
Exhibit No.	5
Witness	Naylor
DO NOT REMOVE FROM FILE	



# AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

## Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-1

Date of Response: August 10, 2006  
Witness: Don Morrissey/Linda Discepolo

**REQUEST:** Ref. Response to Staff 6. Page 2 of 2 of Attachment to Staff 6 indicates that Aquarion made zero contribution to Pension Plan Assets in 2005. Since Aquarion actually received recognition of \$21,400 in its rate case for contributions to the Pension Plan Assets (rev. DW 05-119, Discepolo at Sch. 1F), and since the Commission order in this case was just issued on July 18, 2006 (ie. Order No. 24,648), shouldn't the request for a regulatory liability in this case (i.e. DW 06-094) reflect the same \$21,400 contribution that was approved in the recent rate case?

**RESPONSE:** Although the Company did not make a cash contribution during calendar year 2005, which differs from the March 31, 2005 fiscal year which was the test year for the rate case, it was required under FAS 87 and GAAP to book a pension expense as reflected on its income statement. This methodology is consistent with the regulatory treatment in the other jurisdictions where the Company's affiliates are regulated.

The cash contribution in any given year and the expense required to be booked under FAS 87 and GAAP can vary widely from year to year. During the past three years and projected for 2006, the amounts are as follows:

Year	Contribution	GAAP Pension Expense booked to P&L	GAAP Pension Expense recognized in ratemaking
2003	\$119,228	\$37,257	\$19,528
2004	150,107	36,725	19,528
2005	0	10,456	21,400 *
2006 proj.	0	20,000	21,400

\*annual expense effective Nov.1, 2005

Use of the GAAP expense is more appropriate than recognition of the contribution amount for ratemaking purposes because it is consistent with the amount that the Company is required to book on its income statement and because it provides a more uniform methodology for determining the cost of the plan, whereas cash contributions to the plan may be determined using a variety of cost methods and assumptions and vary greatly from year to year.

The regulatory asset/liability for which the Company seeks recognition in this case is the balance as of the date of closing of the merger transaction. Recognition of this amount will not affect the methodology by which the annual expense is determined, and therefore will not affect rates on a going-forward basis.

## AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

### Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006

Date of Response: August 10, 2006

Request No.: Staff 2-2

Witness: Don Morrissey/Linda Discepolo

REQUEST: Ref. Response to Staff 6. Page 1 of 2 of Attachment to Staff 6 indicates that Aquarion made a \$49,406 contribution to the OPEB Plan Assets. Since Aquarion actually received recognition of \$110,400 in its rate case for contributions to the OPEB Plan Assets (rev. DW 05-119, Discepolo at Sch, 1E), and since the Commission order in this case was just issued on July 18, 2006 (ie. Order No. 24,648), shouldn't the request for a regulatory asset in this case (i.e. DW 06-094) reflect the same \$110,400 contribution that was approved in the recent rate case?

RESPONSE: Although the Company made a \$49,406 cash contribution during the 2005 calendar which differs from the March 31, 2005 fiscal year which was the test year for the rate case, it was required under FAS 106 and GAAP to book an OPEB expense of \$110,400, as reflected on its income statement. This methodology is consistent with the regulatory treatment in the other jurisdictions where the Company's affiliates are regulated.

The cash contribution in any given year and the expense required to be booked under FAS 106 and GAAP can vary widely from year to year. During the past three years and projected for 2006, the amounts are as follows:

Year	Contribution	GAAP OPEB Expense booked to P&L	GAAP OPEB Expense recognized in ratemaking
2003	\$90,000	\$128,030	\$50,812
2004	72,700	107,989	50,812
2005	49,406	86,882	110,400 *
2006 Proj.	55,000	120,000	110,400

\* annual expense effective Nov. 1, 2005

Because of restrictions under federal tax laws, cash contributions to the non-union portion of the OPEB plan do not reflect projected future increases in medical costs. However, the expense required to be booked to the Company's income statement under GAAP does reflect the anticipated

increases. Because increases in medical expense are not reflected in the cash contribution amount, but are reflected in the OPEB expense amount, the GAAP expense is more representative of the cost of providing benefits under this plan.

As noted previously, from year to year there are variances between the amount required to be booked to the income statement as an expense and cash contribution amount, however over time the accumulated difference between these contributions and expenses is not material.

The regulatory asset/liability for which the Company seeks recognition in this case is the balance as of the date of closing of the merger transaction. Recognition of this amount will not affect the methodology by which the annual expense is determined, and therefore will not affect rates on a going-forward basis.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006

Date of Response: August 10, 2006

Request No.: Staff 2-3

Witness: Don Morrissey/Linda Discepolo

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REQUEST: Ref. Response to Staff 6. If Aquarion's Petition proposes to update the amount of the contributions for the Pension and OPEB in this case, from the level that was just recently approved by the Commission in DW 05-119, does Aquarion consider the update, in DW 06-094, a single-issue rate case? If not, please explain why not?

RESPONSE: The Company is not seeking to update the amount of Pension or OPEB expense approved in the recent rate decision. The Company is seeking in this Petition the recognition of a regulatory asset and/or liability for the difference between the Benefit Plan Obligation and the Fair Value of assets versus the net liability recognized on the books.





AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-4

Date of Response: August 10, 2006  
Witness: Don Morrissey/Linda Discepolo

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**REQUEST:** Ref. Response to Staff 6. This response indicates that, under the purchase accounting rules identified in FAS 141, *Business Combinations*, Aquarion is required to record the OPEB Asset of \$587,000 and Pension Liability of \$61,000. Please cite the paragraph in the SFAS No. 141 that Aquarion is relying in concluding that its OPEB Asset and Pension Liability need to be recorded on Aquarion's books.

**RESPONSE:** The paragraphs Aquarion is relying on for the regulatory asset/liability requirement associated with its OPEB and Pension are FAS No. 141 paragraphs 35, 37 h and 37 i, which are set forth below.

Allocation the Cost of an Acquired Entity to Assets Acquired and Liabilities Assumed

35. Following the process described in paragraphs 36-46 (commonly referred to as the purchase price allocation), an acquiring entity shall allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at date of acquisition (refer to paragraph 48). Prior to that allocation, the acquiring entity shall (a) review the purchase consideration if other than cash to ensure that it has been valued in accordance with the requirements in paragraphs 20-23 and (b) identify all of the assets acquired and liabilities assumed, including intangible assets that meet the recognition criteria in paragraph 39, regardless of whether they had been recorded in the financial statements of the acquired entity.

Assets acquired and liabilities assumed, except goodwill

37. h. A liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation of a single-employer defined benefit pension plan, at amounts determined in accordance with paragraph 74 of FASB Statement No. 87, *Employers' Accounting for Pensions*

37. i. A liability for the accumulated postretirement benefit obligation in excess of the fair value of plan assets or an asset for the fair value of the plan assets in excess of the accumulated postretirement benefit obligation

of a single-employer defined benefit postretirement plan at amounts determined in accordance with paragraphs 86-88 of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-5

Date of Response: August 10, 2006  
Witness: Don Morrissey/Linda Discepolo

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**REQUEST:** Ref. The Petition. The Petition ( at page 9, paragraph 20) indicates there may be changes to the amount of net unfunded obligation at the time of closing of the Sale. Please explain why the amounts of unfunded obligations reflected in the recent rate case would not suffice as a reasonable estimate of the amount of the unfunded obligation at the time of closing of the Sale.

**RESPONSE:** The Company is required to value the benefit plan obligations at the date of acquisition per FAS 141 (para. 35). The estimates of the regulatory asset/liability provided in the Petition and as shown in the attachment to Staff 6 were based on December 31, 2005 values. The acquisition is anticipated to occur during the last quarter of 2006, or more than nine months after the valuation provided. The analysis will have to be adjusted to capture changes in the fair value of the assets over the more than nine month period since the date of the value referred to in the Petition as well as changes resulting from, additional employee benefits earned, benefit payments made and the recognition/amortization of a portion of the previously unrecognized costs.



AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-7

Date of Response: August 10, 2006  
Witness: Don Morrissey/Linda Discepolo

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REQUEST: Ref. The Petition. The Petition (at paragraph 18) appears to indicate that Aquarion *will collect* the fair value of the assets and liabilities associated with the pension and OPEB benefit obligations in its ratemaking prospectively. However, the Petition, at paragraph 19, appears to indicate that Aquarion *will not collect* in ratemaking; rather, it will simply adjust the balance in the Regulatory Asset. Please clarify this apparent contradiction.

RESPONSE: The distinction is intended to reflect the fact that (1) the Company has historically recovered the cost of providing both pension and OPEB benefits to its employees through the regulatory process and (2) if a regulatory asset/liability is established as requested, it will not result in the Company recovering an amount that is different from what it could properly have recovered in the absence of such a determination by the Commission. In the years subsequent to the initial recognition of the regulatory asset/ liability, the Company will amortize these amounts as directed by our actuary. This is demonstrated in the journal entries provided in Staff 2-6.



AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-8

Date of Response: August 10, 2006  
Witness: Don Morrissey/Linda Discepolo

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REQUEST: Ref. Response to Staff 6. Please explain Aquarion's current accounting for pension and OPEB and provide current journal entries recording Pension and OPEB costs.

RESPONSE: The Company accounts for pension and OPEB obligations in accordance with generally accepted accounting principals as prescribed in SFAS 87 and SFAS 106. Provided below are the Company's journal entries recording both the expense and contributions for its benefit plans..

For the Pension:

Dr. Pension Expense	\$xx,xxx	
Cr. Pension Liability		\$xx,xxx

(To record the service costs, interest costs and amortizations of unrecognized prior service costs and net(gains)/losses)

Dr. Pension Liability	\$xx,xxx	
Cr. Cash		\$xx,xxx

(To record a Company's contribution to it pensions plan, if applicable.)

For the OPEB:

Dr. OPEB Expense	\$yy,yyy	
Cr. OPEB liability		\$yy,yyy

(To record the service costs, interest costs and amortizations of unrecognized transition obligation and net(gains)/losses)

Dr. OPEB Liability	\$yy,yyy	
Cr. Cash		\$yy,yyy

(To record a Company's contribution to its OPEB plan)





AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-9

Date of Response: August 10, 2006  
Witness: Don Morrissey/Linda Discepolo

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**REQUEST:** The request for a regulatory asset gives rise to a general question concerning the adequacy of corporate funding of pension plans. Would Aquarion be agreeable to providing an annual report to the Commission pertaining to fund status information?

**RESPONSE:** Since Aquarion acquired certain of the former American Water Works Companies (including the former Hampton Water Works Company), Aquarion has always met the funding requirements under the Internal Revenue Code and the Employee Retirement Income Security Act. Although the funded status of the plans may vary from time to time due to economic conditions, Aquarion intends to continue to meet all funding obligations of the plans in the future. Although the Company has concerns about adding to its already extensive reporting requirements to both the Commission (regarding utility regulatory matters) and to federal agencies (regarding pension and employee benefit obligations and funding), the Company would be willing to provide an annual summary of the fund status to the Commission if the Commission believes it would be beneficial to do so.



AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-10

Date of Response: August 10, 2006  
Witness: Larry Bingaman/Adam Torrey

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**REQUEST:** Will water quality concerns caused by galvanized and unlined cast iron mains, along with flow constriction and general life expectancy concerns associated with small diameter galvanized mains, be factored into main replacement recommendations apart from fire flow requirements and main break history considerations?

**RESPONSE:** Generally water quality complaints are indirectly related to pipe material and more related to operational functions or issues such as flushing, main breaks, power outages, and treatment. Although unlined cast iron mains are not specifically targeted for replacement of existing water mains, replacement will be undertaken in an effort to eliminate asbestos cement transmission mains, smaller diameter water mains, and restrictions in the distribution system in addition to considerations for fire flow and water main break frequency. Additionally, the replacement of small diameter, galvanized lines are typically smaller scale projects and are done as needed or as opportunities arise that make it advantageous from a cost savings standpoint. For example, Aquarion plans to retire 75 feet of 2-inch galvanized pipe this fall in connection with a paving project in the Hampton Beach area near King's Highway.



AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-11

Date of Response: August 10, 2006  
Witness: Larry Bingaman/Adam Torrey

REQUEST: Please provide the capital budget for fiscal years 2003-04, 2004-05 and 2005-06, including dollar amounts.

RESPONSE: See attached spreadsheet.

**Aquarion NH - Historical Capital Budgets**

	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Little River Road Main Replacement	250,000		
Services	183,800	261,200	261,200
Source of Supply Study	150,000	75,000	100,000
Auxiliary Generators	120,000		
Meters	84,000	80,120	89,140
Mill Road Wells - Treatment & Storage Imp	80,000		
Exeter Interconnection	60,000		
Vehicles	40,000	30,000	
Vulnerability Assessment	36,100		
In-line remote water quality monitoring	25,000	37,000	
Well #10 Upgrade	23,500		
Hydrants	10,200	15,000	
Construct Office/Distribution Shop Bldg		400,000	
Post Rd I-95 Bridge Main Support Impr.		130,000	
Hydraulic Analysis		95,000	
Mill Rd Aquifer Recharge/Enhancement Project		49,700	
Well #7 Impr		45,000	20,000
Well Owner Response Monitoring		35,500	35,500
SCADA System		21,000	
Water Main Replacement Ashworth Avenue			700,000
Well #10 Treatment Impr.			125,000
Storage Analysis			25,000
Integrated Resource Plan			25,000
Mill Road Treatment Center Feasibility Study			20,000
Misc <\$20K	36,590	106,660	67,000
	<u>1,099,190</u>	<u>1,381,180</u>	<u>1,467,840</u>



AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 06-094

Aquarion Water Company's Responses to Staff Data Requests

Data Request Received: July 31, 2006  
Request No.: Staff 2-12

Date of Response: August 10, 2006  
Witness : Chris Leslie

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**REQUEST:** Given that "all decision making relating to Aquarion will occur at the MUI level" (response to Staff 5), please comment on the extent of specific water-related experience that is or will be resident in MUI itself.

**RESPONSE:** The response to Staff 5 relates to overall decision making process and does not relate to the day to day operational decision making that will continue to occur by Aquarion officers at the Aquarion operating companies level.

In essence, the MUI board will work with and be guided by the officers of Aquarion in developing the annual business plans for Aquarion's operating subsidiaries, including Aquarion-NH. At the conclusion of the business planning process the Board of MUI will adopt a comprehensive plan that Aquarion will implement over the following year. The business plan will also include broader objectives and capital budgets for the four years following the initial business planning year.

Upon approval of the business plan, the Aquarion operating companies will make all decisions required to implement the plan and will generally operate without day to day involvement from MUI. Aquarion will provide monthly reports to the MUI Board showing progress of each subsidiary against the plan. Further decisions would be required to be made by the MUI Board only if there were significant departures from the approved plan.

Accordingly, the day to day decision making will continue to be made by Aquarion officers at the Aquarion operating companies level. Aquarion officers will have direct access to a dedicated asset manager appointed by MUI for Aquarion. The asset manager, who will be located in Macquarie's New York offices, will maintain regular liaison with the officers of Aquarion.

In respect of the issue of specific water related experience resident in MUI, MUI will have full access to officers within the Macquarie group with experience in water and other infrastructure businesses. All proposed members of the MUI board have extensive experience with infrastructure businesses.

