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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 14, 2009 - 10:16 a.m.
Concord, New Hampshire

RE: DW 08-098
AQUARION WATER COMPANY OF NEW HAMPSHIRE:
Notice of Intent to File Rate Schedules.
(Hearing regarding permanent rates)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below

Sandy Deno, Clerk

APPEARANCES: Reptg. Aquarion Water Co. of New Hampshire:
Steven V. Camerino, Esq. (McLane, Graf...)

Reptg. the Town of North Hampton, N.H.:
John J. Ratigan, Esq. (Donahue, Tucker...)

Reptg. the Town of Hampton, N.H.:
Mark S. Gearreald, Esq. (Town Attorney)

Reptg. Residential Ratepayers:
Rorie Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A. B. Thunberg, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

1

2

I N D E X

3

PAGE NO.

4

WITNESS: LINDA M. DISCEPOLO

5

Direct examination by Mr. Camerino 7

Cross-examination by Ms. Hollenberg 23

6

Interrogatories by Cmsr. Below 31

Interrogatories by Chrmn. Getz 32

7

Redirect examination by Mr. Camerino 35

8

WITNESS: KENNETH E. TRAUM

9

Direct examination by Ms. Hollenberg 40

Cross-examination by Mr. Gearreald 46

10

11

WITNESS: MARK A. NAYLOR

12

Direct examination by Ms. Thunberg 47

Cross-examination by Mr. Gearreald 55

13

Cross-examination by Ms. Hollenberg 56

14

15

* * *

16

CLOSING STATEMENTS BY: PAGE NO.

17

Mr. Ratigan 59

18

Mr. Gearreald 60

19

Ms. Hollenberg 61

20

Ms. Thunberg 62

21

Mr. Camerino 62

22

23

24

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
12	Direct Pre-filed Testimony of James L. Lenihan	premarked
13	Direct Pre-filed Testimony of James J. Cunningham, Jr.	premarked
14	Direct Pre-filed Testimony of Mark A. Naylor	premarked
15	Direct Pre-filed Joint Testimony of Kenneth E. Traum and Stephen R. Eckberg	premarked
16	Direct Pre-filed Joint Testimony of George E. Sansoucy and Glenn C. Walker	premarked
17	Direct Pre-filed Testimony of Frederick W. Welch	premarked
18	Settlement Agreement on Permanent Rates, with attachments	premarked
19	Aquarion Response to Tech Session Data Request 2-5	premarked
20	Bill Impacts for a 5/8" Metered Residential Customer Using 67,000 Gallons Per Year	Premarked

1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DW 08-098. On
4 August 29, 2008, Aquarion Water Company filed petitions
5 for permanent rates and temporary rates. An order
6 suspending tariffs and scheduling a prehearing conference
7 was issued on September 25, 2008. And, after a prehearing
8 conference on November 5th, a procedural schedule was
9 issued, setting out procedures for temporary rates and
10 consideration of permanent rates. An order on temporary
11 rates was issued on February 13. The procedural schedule
12 provided for a hearing on the merits beginning today.
13 And, we have filed, as of July 10, a proposed Settlement
14 Agreement among Aquarion, the Consumer Advocate, Staff,
15 and the Towns of Hampton and North Hampton.

16 Can we take appearances please.

17 MR. CAMERINO: Good morning. Steve
18 Camerino, from McLane, Graf, Raulerson & Middleton, on
19 behalf of Aquarion Water Company of New Hampshire.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. BELOW: Good morning.

22 CHAIRMAN GETZ: Other appearances?

23 MR. RATIGAN: John Ratigan, from
24 Donahue, Tucker & Ciandella, representing the Town of

{DW 08-098} {07-14-09}

1 North Hampton.

2 CHAIRMAN GETZ: Good morning.

3 CMSR. BELOW: Good morning.

4 MR. GEARREALD: Good morning. Mark
5 Gearreald, representing the Town of Hampton.

6 CHAIRMAN GETZ: Good morning.

7 CMSR. BELOW: Good morning.

8 MS. HOLLENBERG: Good morning. Rorie
9 Hollenberg, here on behalf of the OCA. And, with me today
10 are Stephen Eckberg and Kenneth Traum.

11 CHAIRMAN GETZ: Good morning.

12 CMSR. BELOW: Good morning.

13 MS. THUNBERG: Good morning,
14 Commissioners. Marcia Thunberg, on behalf of Staff. With
15 me today is Mark Naylor, Jim Lenihan, Jayson LaFlamme, and
16 Doug Brogan. And, when it is our turn, we will be having
17 Mark Naylor presenting part of the Settlement Agreement.
18 Thank you.

19 CHAIRMAN GETZ: Good morning.

20 CMSR. BELOW: Good morning.

21 CHAIRMAN GETZ: Mr. Camerino, would you
22 like to lead off?

23 MR. CAMERINO: Thank you. Let me first
24 just -- well, actually, let me call Ms. Discepolo to the

{DW 08-098} {07-14-09}

1 stand. And, while she's getting up there, I'll cover a
2 couple of procedural matters.

3 First, Mr. Chairman, the parties have
4 identified a number of exhibits that we're going to
5 introduce today. And, I thought, if it was appropriate, I
6 would just read them into the record to identify them now?

7 CHAIRMAN GETZ: Please.

8 MR. CAMERINO: Exhibit 12, and we're
9 picking up where we left off after the temporary rate
10 hearing, Exhibit 12 will be the Direct Pre-filed Testimony
11 of James L. Lenihan; Exhibit 13, the Direct Pre-filed
12 Testimony of James J. Cunningham, Jr.; Exhibit 14 will be
13 the Direct Pre-filed Testimony of Mark A. Naylor; Exhibit
14 15 will be the Direct Pre-filed Joint Testimony of Kenneth
15 E. Traum and Stephen R. Eckberg; Exhibit 16 will be the
16 Pre-filed Joint Testimony of George E. Sansoucy and Glenn
17 C. Walker, has a certain ring to it; Exhibit 17 is the
18 Pre-filed Direct Testimony of Frederick K. [W.?] Welch;
19 Exhibit 18 is the Settlement Agreement on Permanent Rates
20 and the attachments; Exhibit 19 is Aquarion's response to
21 Tech Session Data Request 2-5; and Exhibit 20 is a summary
22 of bill impacts for a five-eighths inch metered
23 residential customer using 67,000 gallons per year.

24 The documents, Exhibits 12 through 17,

{DW 08-098} {07-14-09}

1 were all submitted previously on the appropriate filing
2 dates, so they were not redistributed today. And, Exhibit
3 18 is the Settlement that came in on Friday. So, you
4 should have Exhibits 19 and 20 in front of you.

5 And, then, I would also note, by
6 agreement of the parties, most of the witnesses who
7 prefiled testimony are not going to be testifying today
8 and will not be subject to cross-examination. And, so,
9 while the testimony could be used as an admission against
10 the party submitting it, that other parties to the case
11 are not intending to admit the truth or correctness of any
12 of the statements in the other parties' testimonies.

13 CHAIRMAN GETZ: Okay.

14 MR. CAMERINO: May I proceed? She's
15 sworn?

16 MR. PATNAUDE: No, I've got to swear her
17 in.

18 (Whereupon Linda M. Discepolo was duly
19 sworn and cautioned by the Court
20 Reporter.)

21 LINDA M. DISCEPOLO, SWORN

22 DIRECT EXAMINATION

23 BY MR. CAMERINO:

24 Q. Ms. Discepolo, would you just state your name and

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 business address for the record please.

2 A. Yes. My name is Linda Discepolo. And, I work at 600
3 Lindley Street, in Bridgeport, Connecticut.

4 Q. And, what is your position with Aquarion and your
5 responsibilities in that regard?

6 A. I am the Director of Rates and Regulation. And, I'm
7 responsible for the financial regulatory matters of
8 Aquarion's three water utilities.

9 Q. And, since you are here today testifying, I want to
10 just ask you briefly about your prefiled testimony.
11 That was included as Exhibit 3, which was -- as part of
12 Exhibit 3, which was the permanent rate filing
13 submitted at the temporary rate proceeding. Is that
14 testimony true and correct to the best of your
15 knowledge and belief?

16 A. Yes, it is.

17 Q. And, was it prepared by you or under your direction?

18 A. Yes, it was.

19 Q. Thank you. And, with regard to the Settlement that was
20 marked as "Exhibit 18" for identification, were you the
21 Company's representative in negotiating that
22 Settlement?

23 A. Yes, I was.

24 Q. And, you're familiar with its terms and conditions?

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 A. Yes, I am.

2 Q. I'd like to ask you to summarize that agreement for the
3 Commission.

4 A. Certainly. With respect to the base increase to
5 permanent rates, Schedule A of the -- it's an
6 attachment to the Settlement Agreement provides some of
7 the details with respect to the base increase.
8 Contained within those exhibits, you'll see that the
9 revenue requirement for the Settlement Agreement is
10 proposed at \$5,833,758 [\$5,883,758?]. The revenue
11 deficiency or rate increase is \$873,844, which
12 represents a 17.44 percent increase over the test year
13 operating revenues of \$5,009,914. Proforma rate base
14 equated to \$19,599,850. Operating expenses total
15 \$2,577,137. Also included in the Settlement Agreement
16 is a weighted average cost of capital of 7.72 percent,
17 which is comprised of a cost of equity of 9.75 percent,
18 an overall cost of debt of 6.26 percent, and
19 capitalization is comprised of 58.2 percent debt and
20 41.8 percent equity.

21 Also included in the Settlement
22 Agreement and filed within the case was a request for a
23 step adjustment. And, in the Settlement Agreement, the
24 step adjustment was for the construction of the Mill

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 Road tank. This tank was originally constructed in
2 1914, and it has run its useful life. And, therefore,
3 we request a step adjustment, because it's outside of
4 the test year. It was placed in service in 2008. And,
5 the reason why we really needed the step adjustment is
6 this is a significant investment for the Company. It
7 equates to 7.9 percent of rate base. And, therefore,
8 we required this step adjustment. And, it increases
9 revenues by \$210,854, and it recovers rate base of
10 \$1,549,974. And, the reason why we did need this step
11 adjustment, it is post test year, it is significant,
12 and I guess you'll see later on when we get on with the
13 testimony, it somewhat is -- it's similar to a WICA,
14 because it's a significant investment, it's subsequent
15 to the test year, and I know we'll be discussing that a
16 little bit later.

17 Q. Ms. Discepolo, let me just ask you a couple of
18 clarifying questions on that.

19 A. Uh-huh.

20 Q. The plant addition that's the subject of this step
21 adjustment, is it revenue producing?

22 A. Oh, it's non-revenue producing.

23 Q. And, is the plant currently in service?

24 A. It is currently in service.

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 Q. Thank you.
- 2 A. As Exhibit 20, I think that was distributed, we show,
3 when you take into consideration both the step increase
4 and the base increase, you'll see the bill impact for
5 the typical residential customer for New Hampshire,
6 using 67,000 gallons, and this is the five-eighths inch
7 meter customer, today, their rates are \$397.91. And,
8 after the step increase and the base increase, their
9 rates would be \$486.90 per year, for both phases, both
10 adjustments would result in a 22.4 percent increase
11 from base rates.
- 12 Q. Let me, before you move on, I want to just ask you one
13 clarifying thing. When you were reading or stating the
14 various financial figures, you gave a overall revenue
15 requirement, and I think you said "\$5,833,758".
- 16 A. Oh.
- 17 Q. And, I just want to see if you have a correction there?
- 18 A. It's "\$5,883,758". And, I apologize.
- 19 Q. Why don't you continue on with additional aspects of
20 the Settlement.
- 21 A. Certainly. The Company initially did not propose any
22 adjustment to connection fees. But, as a result of the
23 case, and as we went through discovery, it was
24 determined that connection fees should be increased,

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 based on actual costs. And, I believe Exhibit 19 will
2 show you the calculation on how the new connection fee
3 was derived. It increases from a current fee of \$15,
4 up to \$44. We rounded it for purposes of the tariff.

5 Q. And, what's the effect? Does the Company get more
6 total revenues by increasing that connection fee or
7 what happens to the Company's rate proposal when that
8 adjustment is made?

9 A. The total increase in revenues associated with this
10 connection fee is \$26,709. And, what it's going to do
11 is offset the fire service rate. So, we'll be getting
12 in new dollars, however it will be used to offset the
13 cost associated with fire service.

14 Q. So, increasing this connection charge doesn't increase
15 the Company's overall revenues?

16 A. No, it does not.

17 Q. Why don't you move onto rate design.

18 A. As part of the case, the Company had initially proposed
19 and introduced inclining block rates. However, as the
20 case went on and we were negotiating, we decided to
21 delete the inclining blocks from our proposal. One of
22 the reasons intervenors requested that we not continue
23 with inclining blocks is the fact that we do not have
24 monthly billing. What we are currently doing is we are

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 in the process of automating our meters, and we are
2 approximately 60 percent done. And, what we've tried
3 to do is pick the least costly method of replacing
4 these meters and doing it at the periodic changeout
5 time. So, therefore, it's going to take us a little
6 bit longer, but it's at least more cost-effective than
7 if we just went premises to premises, in any event,
8 doing the periodic meter change. So, we elected to
9 remove the inclining block proposal from the initial
10 case, from the Settlement Agreement.

11 With respect to fire protection, we
12 basically followed the cost of service, except we did
13 make a little compromise with respect to fire charges.
14 And, we -- the Town had proposed an argument and
15 negotiated to reduce the fees slightly, and, therefore,
16 in the light of negotiation, we agreed to a slightly
17 lower fee for the fire charges. So, public fire
18 protection will see, in the base case, a 99 -- or, a
19 9.99 percent increase, versus the 17.44 overall
20 percentage increase.

21 Q. What about with regard to the effective date of the new
22 rates, recoupment of temporary rate surcharge, and any
23 rate case expense, how will those be treated?

24 A. The recoupment and the rate case expense, there will be

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 two different surcharges shown separately on
2 individuals' bills subsequent to the rate case. We'll
3 come in, we'll provide workpapers delineating what the
4 recoupment amount should be, along with what the rate
5 case expenses are, and implement them as two different
6 surcharges on the individual customers' bills. The
7 recoupment will date back to December 15th, 2008, as
8 stipulated in the temporary rate agreement.

9 MR. CAMERINO: Okay. Could we just go
10 off the record for one minute? I just need to clarify one
11 thing with the other parties.

12 CHAIRMAN GETZ: Please.

13 MR. CAMERINO: Thanks.

14 (Off the record.)

15 MR. CAMERINO: I apologize, Mr.

16 Chairman.

17 BY MR. CAMERINO:

18 Q. Ms. Discepolo, I just want to draw your attention to
19 Section -- Page 4 of the Settlement. And, if you look
20 at the first sentence, it says that the rate case
21 expenses will be recovered through a surcharge "which
22 shall be included with the temporary rate
23 reconciliation surcharge", "shall be included". And,
24 just to be clear, your testimony is that there will be

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 two separate charges, one for the temporary rates and
2 one for the rate expense, is that correct?

3 A. That is correct.

4 Q. Okay. Thank you. And, so, to the extent that the
5 Settlement is different or unclear, it's your intention
6 that your testimony would be how this would be
7 implemented?

8 A. Yes, that's correct.

9 CHAIRMAN GETZ: Mr. Camerino, where are
10 you reading from? You said "the first sentence"?

11 MR. CAMERINO: It's the Section G on
12 Page 4 of the Settlement. And, I apologize, because I
13 wasn't clear where the quotes in my statement began. If
14 you look at the second line, after the comma it says
15 "which shall be included with the temporary rate
16 reconciliation surcharge". And, I think normally you
17 would read that to mean that there would be one charge
18 that would lump together the temporary rates and the rate
19 case expense. And, in fact, Ms. Discepolo is testifying
20 they will be shown separately.

21 CHAIRMAN GETZ: Thank you.

22 BY MR. CAMERINO:

23 Q. And, so, Ms. Discepolo, to the extent that your
24 testimony differs from the Settlement, it's your

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 intention to implement it in the way you've just
2 described?

3 A. Yes.

4 Q. Okay. Thank you. All right. Anything further on the
5 rate case expense or temporary rate surcharge? I
6 interrupted you in the middle of that.

7 A. I just thought I'd like to point out, with respect to
8 the temporary rates, currently, the overall rate in
9 effect for the temporary rates is 7.65, which will
10 somewhat mitigate the rates that the customer is
11 currently billed, when we ultimately increase it to the
12 22.4 percent.

13 Q. Okay. I'd like you to walk the Commission through in
14 more detail the proposal with regard to what you called
15 the "WICA", and explain what the proposal is in that
16 regard?

17 A. Okay. The "WICA" stands for "Water Infrastructure and
18 Conservation Adjustment". And, what the Company
19 proposes to do is implement a tariff for a WICA,
20 whereby, and I think it's delineated in Section II,
21 Item H of the Settlement Agreement, and it's also
22 supplemented in Attachment C. And, what the WICA, the
23 proposed WICA would do would be to recoup significant
24 ongoing replacement of aging infrastructure. There are

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 only a select type of assets that would be eligible for
2 WICA, one of them being, and they are all non-revenue
3 producing assets, one of them would be replacement in
4 kind of the same size of meters and hydrants and
5 services, replacement of existing mains and valves that
6 have reached the end of their useful life, main
7 cleaning and relining projects and relocations that are
8 not reimbursable, replacement of production meters, and
9 replacement of pressure-reducing valves. And, the
10 reason why we're proposing a WICA is because we have
11 significant infrastructure to be replaced. And, at the
12 same time, the Company is consistently significantly
13 under-earning on its return. And, this is one way to
14 encourage the Company to continue with its replacement
15 of aging infrastructure, which, in the water industry,
16 is becoming a very popular and significant issue.
17 We've been working towards WICA, I think because we've
18 come in for a step increase subsequent to the rate
19 increase to capture large projects, where the WICA will
20 assist with aging infrastructure and get that replaced.

21 Although we understand there are
22 limitations with respect to regulations, and we have to
23 follow the rules for the historical test year, Staff
24 and intervenors and OCA have been working with us to

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 find a constructive way to assist in recovering the
2 costs associated with these needed infrastructure
3 replacement projects. All these things being equal,
4 if, in fact, we were to implement a WICA, we would
5 probably be in for rate cases -- we could extend the
6 time for which we would actually come in. However, we
7 do know there are economic conditions in other projects
8 which would require us to come in at different
9 intervals. But we feel that this is a great
10 opportunity for both the customer, in that they get the
11 replacement of aging infrastructure and reliability of
12 service, and the Company to get a timely return on
13 certain assets. It will help with regulatory lag, but
14 it by no means eliminates it.

15 Also, as part of WICA, we would submit,
16 for review by Staff and OCA, a three-year budget, which
17 would delineate the projects, which we would ask that
18 would be reviewed as eligible with the projects. And,
19 it would be over the three years. The first year being
20 the most current, and it would be -- the estimated
21 costs would probably be more accurate than say in year
22 two and year three. And, each November 1 we'd come in
23 with a new three-year estimate, so that Staff, the OCA,
24 and the Commission could actually review these.

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 Once we've got approval on the items or
2 the types of projects, the Company would then make an
3 annual filing for recovery of the projects that were
4 actually complete, used and useful, and in service. At
5 that time, Staff would have an opportunity to review
6 the costs, we would submit the costs, and within 60
7 days we would propose to have the rates come into
8 effect. If there was a concern or if there is a need
9 to review the costs or there's a concern that needs
10 further investigation, we could implement the rates
11 within the 60 days, and then come back and reconcile
12 any differences that would have result as a result of
13 the further audit of those numbers.

14 Again, the Commission -- this is a Pilot
15 Program, and I just want to get that out. It's a Pilot
16 Program. It can be subject to change. It would be
17 reviewed in the next case in any event, if, in fact,
18 the Commission determined changes or Staff and OCA
19 determined that there were tweaks or changes that
20 should be made.

21 The WICA would be applied evenly to all
22 classes of customers. It would appear as a surcharge
23 on each individual customer's bill. There is a cap on
24 the WICA. WICA cannot be greater than 5 percent in any

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 given year, or seven and a half percent between rate
2 case cycles. So, there's a definitive cap. And,
3 again, I would reiterate that this is a Pilot Program,
4 and it can be subject to change or amendment or
5 whatever the decision is by the Commission.
- 6 Q. So, to be clear how the cap works, suppose in the first
7 year the Company came in, and the first year after a
8 rate case it had some improvements that it wanted to
9 seek a WICA adjustment for, the maximum amount that
10 rates could increase in that year one would be how
11 much?
- 12 A. Five percent of base revenues, revenues that were
13 authorized in the last case, water revenues only, five
14 percent of that number.
- 15 Q. And, so, if, in year two, the Company came in and had a
16 similar slightly higher amount of improvements that it
17 wanted to make, that would be equal again to 5 percent,
18 how much of that could be implemented?
- 19 A. Only two and a half percent could be implemented,
20 because the total between rate case times is no --
21 revenues cannot increase greater than seven and a half
22 percent of base water revenues in the last allowed rate
23 case.
- 24 Q. And, so, if the Company did that, and now it's at the

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 seven and a half percent, and there still wasn't a
2 general rate case, and in year three it came in, could
3 it get any WICA adjustment at all?

4 A. Absolutely no WICA adjustment would be permitted,
5 because you're already at the cap of seven and a half
6 percent.

7 Q. And, so, at that point, either the Company would delay
8 a further increase or would file a rate case?

9 A. Correct. It would either be delayed or be part of a
10 general rate increase.

11 Q. Okay. Thank you. There were a few other proposals
12 that the Company had made in its original filing that
13 you haven't discussed. And, could you just touch on
14 that briefly please.

15 A. Sure. The Company had initially proposed in its case a
16 provision for a System Development Charge and a Water
17 Balance Plan and conservation measures, but issues were
18 raised with respect to policy, policy issues. And, we
19 feel that it warrants further consideration, so we are
20 taking it off the table.

21 The Company also agrees to work with the
22 Town of North Hampton and all the municipalities to
23 assist in developing any ordinance or other means to
24 promote water conservation. So, we'll continue to work

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 with the municipalities and the Company to find and
2 implement conservation measures.

3 Q. Is it your position that the Settlement is consistent
4 with the public interest?

5 A. Yes. We believe that the Settlement is. It was a
6 compromise between all parties, as you can see, most
7 all parties or all parties signed on to the Settlement
8 Agreement. Initially, we had significant differences.
9 But, as the process went on, we worked together as a
10 group and made compromises and derived a settlement
11 that we believe is a benefit to the customer, the
12 Company, and all parties concerned. And, we'd like to
13 take this opportunity to thank all the parties
14 involved, because we believe that there were really
15 constructive talks and everybody worked hard at
16 achieving great results.

17 MR. CAMERINO: Thank you. That
18 completes my direct examination.

19 CHAIRMAN GETZ: Thank you. Mr. Ratigan.

20 MR. RATIGAN: Briefly, North Hampton
21 supports the Settlement proposal as written.

22 CHAIRMAN GETZ: Thank you.

23 MR. RATIGAN: Thank you.

24 CHAIRMAN GETZ: Mr. Gearreald.

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 MR. GEARREALD: Mr. Chairman, on behalf
2 of the Town of Hampton, I would just like to note that
3 Exhibit 18, the Settlement Agreement, the Town of Hampton
4 is not a signatory to that document. Our position on this
5 is that we are simply not objecting, not opposing the
6 Settlement, but we're not signing onto it.

7 CHAIRMAN GETZ: Okay. Thank you.

8 MR. GEARREALD: Thank you very much.

9 CHAIRMAN GETZ: And, neither of you
10 gentlemen have questions for Ms. Discepolo?

11 MR. RATIGAN: No.

12 MS. THUNBERG: No, Mr. Chairman. Thank
13 you.

14 CHAIRMAN GETZ: Thank you. And,
15 Ms. Hollenberg.

16 MS. HOLLENBERG: Thank you. Just a
17 couple questions.

18 WITNESS DISCEPOLO: Certainly.

19 CROSS-EXAMINATION

20 BY MS. HOLLENBERG:

21 Q. I believe that you, when you were describing the WICA
22 process, mentioned that, after the costs, actual cost
23 information was available, you would file that with the
24 Commission. And, you would agree that the OCA would

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 also receive a copy of that information?

2 A. That is correct.

3 Q. And, that the process of reviewing the actual costs,
4 that the OCA would be a part of that process as well?

5 A. Yes, they will.

6 Q. If you could look at the Settlement Agreement, Page 7,
7 it's Paragraph H(4) that I wanted to ask you a question
8 about.

9 A. Yes.

10 Q. Could you, with regard to the costs, there will not be
11 a reconciliation of costs or expenses, except for any
12 true-up needed, if a temporary WICA were to take place,
13 is that correct?

14 A. That is correct.

15 Q. Could you, though, explain how the property tax expense
16 works? Because I think, would you agree, that that's a
17 slightly different type of expense than another type,
18 would you just explain that please?

19 A. Sure. Property taxes are one of the costs that we
20 would ask to get recovered with respect to the WICA
21 eligible plant. However, we would not ask to get
22 recovery of property taxes unless we did receive a bill
23 for it from the respective municipality or town. So,
24 for example, in the first year, some of the projects

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 might be completed so that there would be a bill in
2 place, and therefore we would only ask if we received a
3 bill for those property taxes. It would be in the
4 second subsequent year if, in fact, we would ask to
5 have 100 percent of the property taxes recovered. And,
6 in the third year, we would not increase the property
7 taxes for any increase in mill rate.

8 Q. And, would you agree that there may be instances where
9 there are some -- there is some property that's been
10 put into service that you may not necessarily have
11 received a tax bill on yet?

12 A. Yes.

13 Q. And, that those, the property taxes associated with
14 that type of property would be prorated for the time
15 period that that property was in service and would be
16 an estimate amount?

17 A. Correct.

18 Q. And, then, in the second year, there would be one
19 reconciliation or one true-up, which would be 12 months
20 of the actual latest tax bill for that property?

21 A. That's correct.

22 Q. Okay. And, would you agree generally, I think you
23 alluded to this in your direct testimony with regard to
24 the WICA that there may be some refinement that's

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 necessary after the Commission approves the Pilot
2 Program?

3 A. I agree. There could be changes as we go along and
4 become more experienced with the program. There could
5 conceivably be changes to the program as it exists
6 today.

7 Q. Okay. And, you would agree that that would be a
8 process that the OCA would be included in?

9 A. Correct.

10 MS. HOLLENBERG: Okay. Thank you.

11 Nothing further. Thank you.

12 CHAIRMAN GETZ: Thank you.

13 Ms. Thunberg.

14 MS. THUNBERG: Yes. Good morning,

15 Ms. Discepolo.

16 WITNESS DISCEPOLO: Good morning.

17 BY MS. THUNBERG:

18 Q. I do have a few questions on the Settlement Agreement.

19 Do you have that document in front of you?

20 A. I do.

21 Q. And, I'd like to have you turn to Page 11 please.

22 A. Yes.

23 Q. And, I draw your attention to the farthest right
24 column, --

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 A. Yes.
- 2 Q. -- which shows, at the very bottom, "17.44 percent".
- 3 And, I just wanted to have you identify that the
- 4 "18.14 percent", and all of the percentages below that,
- 5 are the customer class percent increases for the
- 6 permanent rate, is that correct?
- 7 A. That is correct. The "17.44" is overall, and then the
- 8 individual percentages are delineated by each customer
- 9 class. Correct.
- 10 Q. Okay. You mentioned in your direct that connection
- 11 fees were going up, and that the revenues from those
- 12 connection fees estimated to be about \$26,000 are being
- 13 applied to the public fire protection customer class.
- 14 A. Correct.
- 15 Q. And, does that account, in part, for why, on this
- 16 particular page, the rate increase for public fire is
- 17 only 9.99 percent?
- 18 A. That is correct.
- 19 Q. And, can you state whether, or, if you know, all of the
- 20 items that have been identified in rate base are used
- 21 and useful presently?
- 22 A. Yes, they are all used and useful.
- 23 Q. And, I believe you might have already answered that
- 24 same question for the step adjustment, the Mill tank --

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 Mill Road tank. Is that -- Are the projects that were
2 the subject of the step adjustment used and useful?

3 A. Yes, they are used and useful.

4 Q. Can you please just describe a little bit more about
5 the temporary rate reconciliation, how that's going to
6 go into effect? Because, if you recall, in this docket
7 there were two different effective dates for temporary
8 rates?

9 A. Right. Temporary rates will be reconciled back to the
10 December 15th, 2008 date. However, temporary rates
11 went into effect, it was February 1st, so, therefore,
12 we'll look at the permanent rates, the permanent rates
13 will be calculated from December 15th to February 1st.
14 Then, we'll look at the permanent rate percentage
15 increase and compare it to the temporary rates, and
16 recoup that difference from the time span from the
17 temporary rates, February 1st, to the decision date or
18 the effective date of the 100 percent new rate
19 increase.

20 Q. Thank you for that explanation. I just have a couple
21 questions with respect to the step adjustment that is
22 sought. You mentioned that it would increase revenue
23 requirement I think by \$210,000 or thereabouts?

24 A. Correct.

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 Q. Now, if the Commission were to deny the step
2 adjustment, do you have an opinion as to what the
3 impact would be to the Company's rate of return?
- 4 A. Well, it would significantly plummet the Company's rate
5 of return. Right now, we're earning significantly
6 below our last authorized rate of return, because,
7 obviously, that plant is used and useful, it's in the
8 operations, and it is in rate base. So, not to get the
9 revenues associated with that would definitely not
10 allow us to earn anywhere near our allowed return.
- 11 Q. Can I have you turn to Page 19 of the Settlement
12 Agreement please? And, I'm drawing your attention to
13 the "3.58 percent" overall percent increase. And, the
14 other customer class percentage increases, are these
15 increases consistent with the cost of service study
16 that the Company did I think a rate case ago?
- 17 A. It basically follows the cost of service study, with
18 respect to one little adjustment associated with -- oh,
19 with the step increase? Yes. I'm sorry. I apologize.
20 It follows the last cost of service study, correct.
- 21 Q. But is there an exception for the public fire --
- 22 A. The step increase is evenly across the board for all
23 customer classes.
- 24 Q. Thank you. With respect to the step increase

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 implementation, is this going to be implemented on a
2 service rendered basis or a bills rendered basis?

3 A. We could do it on a bills rendered basis, or service
4 rendered. I mean, we are doing service rendered for
5 the temporary rates. If you prefer service rendered,
6 we will go ahead with service rendered.

7 Q. The only reason I asked that is because it wasn't
8 specified in the Settlement Agreement. And, for your
9 edification, we have the administrative rule that
10 requires service rendered. And, I just wanted to cover
11 that point in the hearing today.

12 A. We'll do it --

13 Q. If it was bills rendered, we'd ask for a waiver.

14 A. Service rendered it is.

15 Q. Thank you for that clarification. And, I just wanted
16 to touch upon the WICA. You mentioned some of the
17 benefits to the customers. I believe, was one of them
18 that it would mitigate rate shock and that it would
19 have rate increases coming in smaller amounts, but more
20 frequently? Is that what one of the intent is with
21 this WICA?

22 A. Absolutely. Because we'll be filing on an annual
23 basis, there will be a gradual increase in rates.
24 Instead of having rates increase from rate case to rate

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 case, it will gradually increase for the plant that we
2 would be permitted to put in for WICA eligible only
3 plant.

4 Q. And, am I also fairly characterizing that another
5 benefit is that the customers will be benefiting
6 because aging infrastructure is going to be replaced,
7 and therefore the reliability of the system will be
8 increasing?

9 A. Absolutely.

10 MS. THUNBERG: Staff has no further
11 questions. Thank you.

12 CHAIRMAN GETZ: Thank you.

13 BY CMSR. BELOW:

14 Q. On several of the schedules on rates, for example, on
15 Page 19 of the Settlement Agreement, there's a -- on
16 Line 10, it's "miscellaneous" for a "Rate/Class of
17 Service". Could you just characterize what that
18 "miscellaneous" is?

19 A. Yes. It's late payment fees, antenna rentals,
20 connection charges.

21 CMSR. BELOW: Okay. Thank you. That's
22 all.

23 BY CHAIRMAN GETZ:

24 Q. Good morning, Ms. Discepolo. I'd like to talk a little

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 bit about the WICA charge.
- 2 A. Yes.
- 3 Q. And, your testimony indicates that your Director of
4 Rates and Regulation, and you've testified on a variety
5 of issues in Connecticut, New York, and Massachusetts.
- 6 A. Uh-huh.
- 7 Q. And, I guess, would it be fair to say, from the
8 Company's perspective, that a WICA charge addresses the
9 issue of regulatory lag?
- 10 A. It somewhat addresses regulatory lag. Obviously, it's
11 only for certain plant, not all Company's plant. And,
12 from the minute you come out of a rate case, all your
13 plant is recognized. So, to a certain extent it does,
14 but it does not address the entire regulatory lag.
- 15 Q. Are there comparable WICA-type charges in any of
16 Connecticut, New York, or Massachusetts?
- 17 A. Connecticut has a WICA charge, yes.
- 18 Q. Okay. And, do any of those states -- well, if I recall
19 correctly, New York has a fully forecasted test year.
20 Does that address some of these types of issues or
21 would you -- would they be incompatible, an adjustment
22 charge like this, in a jurisdiction where there was a
23 fully forecasted test year?
- 24 A. Well, we're not in New York anymore. The water

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 utilities, when we were there, were historical rate
2 years, and they did make provisions for plant going
3 down the road, where you were allowed to get that
4 recognized. It's a little bit different, it's a
5 hybrid. But, in Connecticut, they use the same return
6 on rate base. It's pretty much that what we put forth
7 in New Hampshire follows the WICA in Connecticut. But
8 we're not familiar with New York as much anymore, but
9 they do have a WICA, and it is for select plant.

10 Q. I'm sorry, who has a WICA?

11 A. New York has a form of a WICA, but it's done on a
12 case-by-case basis, a utility-by-utility basis.

13 Q. And, I may have lost you. In Connecticut?

14 A. Connecticut has a WICA, and --

15 Q. And, what do they use for a test year? Is it
16 historical or fully forecasted?

17 A. Historical.

18 Q. Okay.

19 A. But we are allowed to project plant to the decision
20 date. So, it's -- your plant doesn't end in your test
21 year, you're allowed to project it until such time as
22 the decision is issued. So, there is somewhat of a
23 proforma plant component to it.

24 Q. And, then, let's go back to Massachusetts.

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 Massachusetts?

2 A. They allow very little proforma plant, but they do not
3 have WICA yet. We are currently in the process or will
4 be to speak with their legislatures and its commission
5 to discuss the ability to implement a WICA.

6 Q. Okay. Well, do you have any general opinion, you know,
7 based on your experiences and preference among
8 addressing these types of issues, either through
9 adjustment charges or fully forecasted test years
10 versus historical test years or split test years, do
11 you have any -- or any other mechanisms for addressing
12 these issues when infrastructure is continually being
13 upgraded?

14 A. Well, I think the WICA is a great mechanism and a great
15 program as a means of addressing certain plant with
16 respect to infrastructure, because that's what WICA is
17 only designed to do is to recoup infrastructure. There
18 are -- I'm not familiar with commissions, obviously, I
19 think the best of all worlds would be to project rate
20 cases out and project plant out, project O&M expenses
21 out going out several years and get rates associated
22 with that. But that's a very difficult thing to do.
23 And, most commissions that I've been involved with
24 don't want to go down that road with projecting all the

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 way down for, say, if you're in a three year cycle,
2 you're projecting three years out and setting rates to
3 gradually increase over the next three years, WICA will
4 at least assist companies to make -- hopefully begin to
5 earn somewhat close to their allowed rate of return, as
6 you're allowed to recognize plant slowly and gradually.

7 CHAIRMAN GETZ: Okay. Thank you.

8 Mr. Camerino, do you have anything for redirect?

9 MR. CAMERINO: Just one thing.

10 REDIRECT EXAMINATION

11 BY MR. CAMERINO:

12 Q. I want to go back to the property tax issue.

13 A. Yes.

14 Q. I think there were two different descriptions. And, as
15 the politicians say, "I want to see if perhaps there's
16 a third way." And, again, I'm focusing you on Page 7
17 of the Settlement, if you look at Paragraph 4 on that
18 page. And, what I'm going to do is just take you
19 through, say, the first three years of a WICA charge
20 and what would happen with the property tax bill, so we
21 can understand from a practical standpoint.

22 A. Sure.

23 Q. So, in the first year, when the Company comes in and
24 seeks a WICA adjustment, let's assume that the plant

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 went into service in July. The value of that plant
2 addition, that will not be reflected in taxes until the
3 Company receives its next tax bill, is that correct?
- 4 A. That is correct.
- 5 Q. Okay. And, do you know when that tax bill comes or
6 what the tax year is when those plant additions will
7 first be reflected?
- 8 A. The following July, the following year.
- 9 Q. Following -- and, let me just suggest to you, in New
10 Hampshire, April 1 is the beginning of the tax year for
11 municipalities. And, so, you're saying that next tax
12 bill is the first time the Company would actually pay
13 taxes on that plant?
- 14 A. Correct.
- 15 Q. And, do you recall that the Consumer Advocate had
16 raised the concern that it didn't want the Company to
17 be collecting revenues for taxes that it hadn't been
18 billed for?
- 19 A. Correct.
- 20 Q. And, that's, I think take it, what this provision is
21 intended to address in large part?
- 22 A. Yes, it is.
- 23 Q. So, when you said "the taxes would be prorated", it's
24 that first year that you're referring to?

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 A. Correct.
- 2 Q. Okay. And, so, in my example, if the plant went into
3 service in July, and the WICA I guess is supposed to be
4 effective January 1, --
- 5 A. Correct.
- 6 Q. -- you would only have paid nine months, I have to do
7 my math, nine months of taxes in the first year that
8 that WICA relates to, right?
- 9 A. Correct.
- 10 Q. And, so, that nine months is the proration that this
11 paragraph refers to?
- 12 A. Yes, it is.
- 13 Q. Okay. But the place I want to clarify is, you said you
14 would only pay taxes if you had actually received a
15 bill?
- 16 A. You are correct.
- 17 Q. Okay. Could you clarify how you would figure out the
18 taxes for that first year, if you haven't received a
19 bill?
- 20 A. Well, we would have the value of the plant. We would
21 have the prior bill to know what the mill rate is, and
22 we'd calculate what the taxes would be, and then
23 prorate them accordingly.
- 24 Q. And, so, when this paragraph refers to an "estimate",

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

- 1 you would be estimating the taxes for that first year?
- 2 A. Correct.
- 3 Q. But you would only include taxes for the portion of the
- 4 year that you were actually paying taxes?
- 5 A. That is correct.
- 6 Q. And, the next year you'd come in and you'd have -- you
- 7 might be filing for a new WICA for new plant additions,
- 8 but you would also have this continuing WICA from year
- 9 one, right?
- 10 A. Correct.
- 11 Q. And, you would not reconcile that, if your revenues
- 12 didn't recover what you had hoped to recover, you would
- 13 not reconcile that, correct?
- 14 A. No, we would not.
- 15 Q. But at that point you'd have a real tax bill.
- 16 A. Yes, we would.
- 17 Q. What would you do to the WICA as a result of having
- 18 that new tax bill?
- 19 A. We would reflect the actual taxes and reflect 12 months
- 20 of the taxes associated with that WICA eligible plant,
- 21 instead of the nine-twelfths.
- 22 Q. So, that first WICA would be changed to reflect your
- 23 actual tax bill at 12 months at that point?
- 24 A. Correct.

{DW 08-098} {07-14-09}

[WITNESS: Discepolo]

1 Q. The next year you come in you're still -- you're
2 collecting that same WICA?

3 A. Yes.

4 Q. And, now, you've got a new tax bill, no doubt the tax
5 rate will have changed, probably have gone up. Are you
6 going to change that WICA again?

7 A. No, we would not change the WICA at that point in time.

8 MR. CAMERINO: All right. Thank you.

9 CHAIRMAN GETZ: Okay. Anything further
10 for the witness?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing nothing, then
13 you're excused. Thank you. Mr. Camerino.

14 MR. CAMERINO: The Company has nothing
15 further. Thank you.

16 CHAIRMAN GETZ: Ms. Hollenberg or
17 Ms. Thunberg?

18 MS. HOLLENBERG: Thank you. I'd like to
19 call Ken Traum to the stand.

20 (Whereupon Kenneth E. Traum was duly
21 sworn and cautioned by the Court
22 Reporter.)

23 KENNETH E. TRAUM, SWORN

24 DIRECT EXAMINATION

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 BY MS. HOLLENBERG:

2 Q. Good morning, Mr. Traum. Would you please state your
3 name and business address for the record.

4 A. Certainly. Kenneth E. Traum. I'm the Assistant
5 Consumer Advocate. Our office is located at 21 South
6 Fruit Street, Suite 18, in this building.

7 Q. And, you are a Utility Analyst, is that correct?

8 A. A Utility Analyst and Assistant Consumer Advocate.

9 Q. Yes. Thank you. Do you agree that you filed testimony
10 in this docket along with Stephen Eckberg?

11 A. Yes. It's joint testimony filed by Mr. Eckberg and
12 myself.

13 Q. And, do you have any corrections to make to that
14 testimony?

15 A. Just two very small ones. On Page 2, Line 6, we noted
16 that "Aquarion serves approximately 8,770", we had used
17 the word "residential customers", and we'd like to
18 strike the word "residential", so it should just
19 indicate that "Aquarion serves approximately 8,770
20 customers." The second minor correction we had was on
21 Page 26 of the testimony, Line 4, where we indicated
22 that "Further, the cumulative increase for the
23 effective [entire?] Pilot period should be capped at
24 some total percent of rate base." The words "rate

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 base" should be stricken and replaced with "revenues".

2 Q. Thank you. Aside from those two corrections, would you
3 agree that your testimony filed with Mr. Eckberg is
4 true and correct to the best of your knowledge and
5 belief?

6 A. Yes, it is. Obviously, it has been superseded by the
7 Settlement Agreement, though.

8 Q. Certainly. And, do you agree that it was prepared by
9 you or under your direction?

10 A. I'd like to say it was prepared by Mr. Eckberg and
11 myself jointly, but certainly with significant
12 assistance from counsel.

13 Q. Thank you. Did you participate in the negotiations on
14 behalf of the OCA of the Settlement Agreement?

15 A. Again, it was a team effort on behalf of the OCA. I
16 participated, as well as Mr. Eckberg and counsel.

17 Q. And, would you like to summarize the Office of Consumer
18 Advocate's position on the Settlement Agreement please.

19 A. Certainly. I'd like to start by thanking the Company
20 and the parties for the cooperative process in this
21 case, which we believe resulted in a Settlement that we
22 certainly recommend to the Commission for approval.
23 This is a full settlement, with a lot of give-and-take
24 by all parties. And, in that light, the OCA views the

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 revenue requirement increases effectively a "black box"
2 resolution, that could be viewed or it should be viewed
3 that way. But it does recognize that there's a
4 9.75 percent return on equity as specifically laid out
5 in the Settlement document.

6 Q. And, do you have any comments about any of the specific
7 provisions of the Settlement Agreement?

8 A. Sure. I'd like to just -- I'll briefly highlight a
9 couple of the other paragraphs. Paragraph D is the
10 "Connection Fee". And, I think what's important to
11 recognize there is that it will now be a cost-based
12 fee, which is consistent with the general position of
13 the OCA that existing customers should not be
14 subsidizing new ones.

15 Q. And, do you have any comments about Paragraph E, "Rate
16 Design"?

17 A. Certainly. We view this paragraph as sort of in two
18 aspects. First, as a result of the give-and-take of
19 the settlement process, and the advocacy by the towns,
20 the public fire protection rate will be increasing by
21 9.99 percent prior to the step adjustment. The
22 remainder of the increase will be recovered on an equal
23 percentage basis across the board from all customer
24 classes. And, similarly, the step adjustment

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 recoupment and reasonable and prudent rate case
2 expenses will also be recovered as an equal percentage
3 basis from all customer classes, and that would include
4 the public fire protection.

5 Q. How about any comments on Paragraph H, which covers the
6 "WICA"?

7 A. Certainly. The OCA originally supported this new
8 concept as a pilot in our testimony, with conditions.
9 The WICA is outlined in the Settlement as one we
10 support as a pilot, which may help to delay future rate
11 cases, address needed non-revenue producing asset
12 additions on a timely basis, have limited rate impact,
13 and include the parties in the process before the
14 dollars are actually spent. While all of the details
15 have not yet been completely worked out with regards to
16 WICA, we would expect that the parties will continue to
17 cooperate and resolve any issues as they come up for
18 implementation.

19 I would just like to add at this point,
20 in response to the Chairman's questions. We did, in a
21 data request, which we can provide later, if desired,
22 in OCA 1-15, ask about other states the Company was
23 aware of that had WICA-type mechanisms. And, I believe
24 there were nine other states that have somewhat similar

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 mechanisms. And, Mr. Eckberg did go through those,
2 looking for, you know, particular points that we wanted
3 to see included in an adjustment clause here.

4 The other thing I'd mention is that,
5 where the WICA concept may be new to New Hampshire from
6 a water industry -- water utility industry perspective,
7 I don't think it's that new in terms of, on the gas
8 side and the electric side, we have, whether it be bare
9 steel main surcharges in the past or reliability-type
10 surcharges for the electric, this kind of a concept is
11 not unique in New Hampshire.

12 Q. Thank you. The Company touched upon their withdrawal
13 of the other mechanisms that were proposed in their
14 original filing. And, I wondered, that's covered by
15 Paragraph I of the Settlement Agreement, do you have
16 any comments about Paragraph I?

17 A. Sure. While the Company is for now withdrawing its
18 proposals for a System Development Charge or a Water
19 Balance Plan and inclining block rates, the OCA had
20 generally supported those concepts in our prefiled
21 testimony. And, I want to stress the settling parties
22 have agreed to continue to explore potential
23 implementation of water conservation measures, whether
24 in these forms or others.

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 In addition, we applaud the Company in
2 their willingness to work with the municipalities on
3 water conservation, which we view as a particularly
4 significant issue on the Seacoast. Needless to say,
5 the OCA is supportive of cost-effective conservation
6 and pricing for Aquarion, as we are for other utility
7 industries. So, we hope these discussions will be very
8 productive and develop aggressive approaches to the
9 problems.

10 Q. Thank you. I just wondered, I'll ask you one final
11 question, there was some discussion when Ms. Discepolo
12 was on the stand about the step adjustment and whether
13 or not it would be implemented on a bills rendered or
14 service rendered basis. Do you have any position on
15 that issue?

16 A. While we support the step adjustment, we think it
17 should be on a service rendered basis, as we feel it
18 would be more appropriate.

19 MS. HOLLENBERG: Thank you. Thank you.

20 No other questions.

21 CHAIRMAN GETZ: Mr. Ratigan, any
22 questions for Mr. Traum?

23 MR. RATIGAN: No questions.

24 CHAIRMAN GETZ: Mr. Gearreald?

{DW 08-098} {07-14-09}

[WITNESS: Traum]

1 MR. GEARREALD: Yes, Mr. Chairman.

2 CROSS-EXAMINATION

3 BY MR. GEARREALD:

4 Q. Mr. Traum, as part of its data requests in this matter,
5 like the Town of Hampton, did the OCA inquire as to
6 issues of executive compensation and charges that are
7 passed down to Aquarion from its parent for executive
8 services?

9 A. Yes. We did ask data requests along that line, as I
10 believe the Town did also.

11 Q. And, as part of its due diligence, was the OCA
12 satisfied with the answers that were received?

13 A. I believe the answers were honest and truthful. In
14 terms of what we did with the answers, they were
15 subsumed within the overall Settlement.

16 MR. GEARREALD: Thank you.

17 CHAIRMAN GETZ: Ms. Thunberg?

18 MS. THUNBERG: The Staff has no
19 questions. Thank you.

20 CHAIRMAN GETZ: Mr. Camerino.

21 MR. CAMERINO: No thank you.

22 CHAIRMAN GETZ: And, nothing from the
23 Bench. So, I take it there's no need for redirect?

24 MS. HOLLENBERG: No thank you.

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 CHAIRMAN GETZ: The witness is excused.

2 Thank you, Mr. Traum. Ms. Thunberg.

3 MS. THUNBERG: Yes. Staff would like to
4 call Mark Naylor to the stand.

5 (Whereupon Mark A. Naylor was duly sworn
6 and cautioned by the Court Reporter.)

7 MARK A. NAYLOR, SWORN

8 DIRECT EXAMINATION

9 BY MS. THUNBERG:

10 Q. Mr. Naylor, if you could just state your name and
11 position for the record.

12 A. Yes. My name is Mark Naylor. And, I'm the Director of
13 the Gas and Water Division here at the New Hampshire
14 PUC.

15 Q. And, can you just summarize what your responsibilities
16 are as Director?

17 A. I manage the staff of the Division, and am responsible
18 for the work product of the Division.

19 Q. And, did part of that work product involve filing
20 testimony in this docket?

21 A. Yes.

22 Q. And, did part of that involvement also include drafting
23 or participating in the drafting of the Settlement
24 Agreement that's been marked for identification in this

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 proceeding as "Exhibit 18"?

2 A. Yes.

3 Q. And, you're familiar with the terms of that document?

4 A. Yes, I am.

5 Q. With respect to the step adjustment that's been
6 mentioned in here, your familiar with the Mill Road
7 projects?

8 A. Yes, I am.

9 Q. And, did Staff conduct an audit of those assets that
10 are -- sorry, let me just rephrase that. Did Staff
11 conduct an audit of the assets that are proposed in the
12 step adjustment?

13 A. Yes.

14 Q. And, did the audit conclude that they were used and
15 useful?

16 A. Yes, I believe so. Yes, I know that the numbers that
17 are included in the settlement for the values are
18 audited figures. So, I believe that it's very safe so
19 to say that the plant is in service.

20 Q. And, do you have an opinion as to the just and
21 reasonableness of the rates that are proposed in the
22 Agreement?

23 A. I believe the revenue requirement and the resulting
24 rates proposed in the Agreement are just and

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 reasonable.

2 Q. And, you've heard the description about the WICA
3 proposal in the Agreement. I'd like to have you
4 comment, if you have anything additional to add to the
5 process that Ms. Discepolo had described, from Staff's
6 point of view of how it will be responding to this
7 WICA?

8 A. Well, I think the testimony before me has indicated
9 that this is not a new concept. There are a number of
10 states that have adopted it for water utilities. I
11 think we wanted, in this proceeding, to evaluate the
12 benefits of it, potential benefits, for customers, as
13 well as the Company. I think it was certainly helpful
14 that all the parties to the proceeding, the active
15 parties viewed it favorably. I think it will give the
16 Commission, ultimately, and the parties an opportunity
17 to work closely with the Company on what its priorities
18 will be for infrastructure replacement, and that is the
19 focus of this WICA is replacement of aging
20 infrastructure.

21 So, we will be interested to see whether
22 it does provide the incentive for the Company to
23 increase its rate of replacement. It certainly will
24 provide the Company with a quicker recovery, if you

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 will, of its plant investments that are eligible under
2 the proposed WICA. I think we've established it
3 appropriately as a Pilot Program. So, I think we've
4 put together a nice package for it. I think we'll be
5 able to do the necessary review in a reasonable period
6 of time, make recommendations to the Commission on it.

7 Certainly, I thought it was helpful that
8 the towns that participated in the docket were
9 interested in seeing something like this, such that it
10 would help to mitigate rate shock going forward as the
11 Company makes additional capital investments in the
12 system. So, I think we had all the necessary
13 ingredients for supporting this and for recommending it
14 to the Commission.

15 Q. And, Mr. Naylor, the Staff or the Commission has a
16 process, a Form E-22, for reviewing projects, are you
17 aware of that?

18 A. Yes, I am.

19 Q. And, can you describe, with that E-22 process in place,
20 how this WICA is either supplementing it or different
21 from it?

22 A. Well, the E-22 process provides, at the Staff level, a
23 mechanism for review of projects which exceed a certain
24 value level. And, the Company is required to file a

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 Form E-22 for Staff review. It's simply an advisory
2 form. It gives the Staff an opportunity to engage the
3 Company in a discussion regarding the proposed project
4 by being advised through the filing of the E-22. That
5 certainly is markedly different from what we're
6 proposing here. This is a much more comprehensive
7 review of proposed projects. The Company will be
8 making a filing, as it lays out in this document,
9 proposed three years of eligible projects. The parties
10 will review it, we'll debate it, and ultimately make a
11 recommendation to the Commission to keep these projects
12 on a WICA eligible list. And, then, the Company will
13 be able to seek rate recovery for those projects in a
14 form of a surcharge between rate cases. So, it's
15 markedly different, more comprehensive than the E-22
16 process that has been in place here.

17 Q. And, I think, I may be reading between the lines, but
18 correct me if I'm wrong, is it fair to characterize
19 this WICA process as the Commission will have much more
20 oversight on the projects of this water company than it
21 has prior to a WICA implementation?

22 A. Well, I think so. Certainly, in the parties making a
23 recommendation for what we believe is an appropriate
24 list of eligible projects, there will be more review,

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 more debate of priority and so forth. So, to that
2 extent, the Commission will ultimately have certainly
3 more say with respect to the eligible projects for
4 WICA.

5 Q. I think you already touched upon some of the benefits
6 to the Company and contrasting that to the benefits of
7 customers from the WICA. Do you have anything else to
8 add?

9 A. Well, I think, certainly, mitigation of rate shock is a
10 significant -- a significant issue. As the Commission
11 knows, water companies rarely come in here for anything
12 less than 20 percent or more increases, with all the
13 requirements over the last 10 to 15 years in the Safe
14 Drinking Water Act and for other reasons, including
15 aging infrastructure. So, yes, this is also going to
16 be helpful in mitigating rate shock. It will
17 gradualize rate increases for customers. And, I think
18 there is a significant benefit there.

19 For the Company, it certainly will help
20 them speed up their cash flow, and hopefully will
21 provide the incentive that they have indicated they're
22 seeking for an increase in the rate of infrastructure
23 replacement.

24 Q. I'd like to get your opinion on the termination of the

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 program, because it is briefly described on Page 8, the
2 first paragraph, where it states, and I'll read from
3 the document: "The WICA process shall automatically
4 terminate at the time of a final order in the Company's
5 next general rate case, unless it is extended by the
6 Commission in such order or prior to such order." The
7 purpose of the WICA is to extend the time between rate
8 cases, correct?

9 A. That is one hopeful result of implementing the WICA.

10 Q. And, the Company is going to be coming in with one,
11 two, and three year proposals for projects, is that
12 correct?

13 A. That's correct.

14 Q. Is it conceivable then that the Company could go like
15 eight years till the next general rate case?

16 A. It's conceivable, yes.

17 Q. Will -- I guess what I just want to ask is, is Staff
18 prepared to be looking at this on a yearly basis, and
19 if, for some reason, some major problem in its opinion
20 arises, that it has the ability to notify the
21 Commission and that the program can be put under
22 scrutiny for perhaps termination?

23 A. Yes, I believe that's correct. I believe we have -- I
24 believe we've written into the Agreement, although I

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 can't put my hands on it right at the moment, a
2 provision for terminating the -- terminating WICA.

3 CMSR. BELOW: Top of Page 8?

4 WITNESS NAYLOR: Yes.

5 BY THE WITNESS:

6 A. Yes. Paragraph 7, beginning at the bottom on Page 7,
7 and onto Page 8, may be modified or discontinued by the
8 Commission. I think the remainder of that paragraph is
9 indicating that, once the WICA projects are in rates,
10 it's a recognition that the Company is entitled to
11 continue to earn those revenues through its rates.
12 But, yes, to your original question, we are, and while
13 I understand it's a Pilot Program, it can be
14 terminated. And, I think the last sentence of that
15 paragraph at the top of Page 8 is intended to require
16 the parties, and therefore the Commission, to address
17 WICA at the time the Company files another case. And,
18 that will be the first -- likely be the first time that
19 we will evaluate the impact of it and its
20 effectiveness.

21 BY MS. THUNBERG:

22 Q. Mr. Naylor, I have no further specific questions,
23 unless you had a comment that I forgot to ask you
24 about?

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 A. No. I think we're all set. Just to recommend the
2 Commission approve the Settlement. I think we've
3 reached a very reasonable compromise on the issues.
4 And, all the parties have contributed a lot to the
5 development of this document. And, I think, for the
6 Staff, we appreciate everyone's efforts.

7 MS. THUNBERG: Thank you. No further
8 questions.

9 CHAIRMAN GETZ: Mr. Ratigan, do you have
10 questions for --

11 MR. RATIGAN: None.

12 CHAIRMAN GETZ: Mr. Gearreald?

13 MR. GEARREALD: Yes.

14 CROSS-EXAMINATION

15 BY MR. GEARREALD:

16 Q. Mr. Naylor, you mentioned, in response to direct
17 questions, that an audit was performed with regard to
18 the water tower. However, the audit -- an audit was
19 performed that actually included much more than that,
20 isn't that so, in connection with this case?

21 A. Actually, there were two audit documents prepared,
22 audit procedures resulting in documents. One was for
23 the test year, which I believe that document has been
24 shared with all the parties. And, then, a second audit

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 review specifically for the Mill Road Project, which
2 was completed within the past month, I believe.

3 Q. Thank you. With regard to WICA, is Staff willing to,
4 as it receives notice of filings by the Company on
5 WICA, to notify the municipalities involved, whose
6 customers are affected, so that they, too, may monitor
7 developments in the program?

8 A. I believe that is what is intended, yes. And,
9 certainly, I'm encouraged that the parties to this case
10 can participate in the review of the projects, as well
11 as the Company's first request for an actual surcharge.

12 Q. Right. So that, not merely will Staff and the OCA be
13 involved, but potentially others?

14 A. Certainly.

15 MR. GEARREALD: Thank you.

16 CHAIRMAN GETZ: Ms. Hollenberg?

17 MS. HOLLENBERG: Thank you. Just two
18 quick questions.

19 BY MS. HOLLENBERG:

20 Q. You were asked on direct about the process that was
21 provided for in the Settlement Agreement, and it's in
22 Paragraph 7, on Page 7, where the parties could ask the
23 Commission to look at the WICA, if they have any
24 concerns about it. And, I just wanted to see if you

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

- 1 would agree that, to the extent that Staff or anyone
2 else has a concern about the party -- or, about the
3 Company's earnings, you could ask, notwithstanding the
4 terms of Settlement Agreement, you could ask the
5 Commission to start a proceeding or a general rate case
6 or you could ask them to look at the Company's
7 earnings, do you agree with that?
- 8 A. Absolutely.
- 9 Q. Okay. So, even if the Settlement Agreement didn't
10 provide that, you would be able to do that under the
11 law?
- 12 A. I believe that is correct.
- 13 Q. Okay. And, if you could just look at the Settlement
14 Agreement, the Settlement Attachment C, which is the
15 proposed tariff. And, if you could look at Page 3 of
16 that Settlement Attachment C, do you see the paragraph
17 about halfway down that says "Annual updates"?
- 18 A. Yes, I do.
- 19 Q. You were just asked by the Town of North Hampton if the
20 Staff would -- I'm sorry, the Town of Hampton, excuse
21 me, if the Staff would provide notice of filings by the
22 Company. Do you see where it says that the Company is
23 required to provide notice of its filings directly to
24 the Towns?

{DW 08-098} {07-14-09}

[WITNESS: Naylor]

1 A. Yes, I see that.

2 MS. HOLLENBERG: Okay. I don't have any
3 other questions. Thanks.

4 CHAIRMAN GETZ: Thank you.

5 MS. HOLLENBERG: Thank you.

6 CHAIRMAN GETZ: Mr. Camerino?

7 MR. CAMERINO: No questions. Thank you.

8 CHAIRMAN GETZ: Okay. And, no questions
9 from the Bench. So, is there anything further for
10 Mr. Naylor?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing nothing, then
13 you're excused. Thank you. I take it there are no
14 further witnesses. So, is there any objection to striking
15 identifications and admitting the exhibits into evidence?

16 (No verbal response)

17 CHAIRMAN GETZ: Hearing no objection,
18 they will be admitted into evidence. Are there any other
19 issues we need to address before providing an opportunity
20 for closings?

21 (No verbal response)

22 CHAIRMAN GETZ: Hearing nothing, then,
23 begin with Mr. Ratigan.

24 MR. RATIGAN: The Town of North Hampton

{DW 08-098} {07-14-09}

1 would first like to thank the Company for presenting not
2 only the WICA, but the Water Balance Charge, the System
3 Development Charge. Like the OCA, we would have liked to
4 see those concepts incorporated into a final settlement.
5 We understand Rome was not built in a day, and it may take
6 yet another hearing before this Commission before those
7 concepts are explored and adopted.

8 We regret, but understand, that the
9 Company is not able to move as quickly as many of the
10 parties would have liked towards automatic meter reading,
11 and which would have allowed for the adoption of an
12 inverse or inclining block rate, which would -- we think
13 would give correct pricing signals on water, and we hope
14 we'll be able to revisit that. And, though, an eight year
15 time limit for another rate case would probably be an
16 outside parameter. We think that we would like to get to
17 those issues in a shorter time, and we understand that
18 three years might be appropriate.

19 Secondly, we think that, aside from the
20 economic issues, the WICA provides an opportunity for the
21 communities to cooperate with the Company on reviewing
22 future capital investment projects. And, although it is
23 not a large portion of their annual proposed capital
24 investments, we think that's a good place to start.

{DW 08-098} {07-14-09}

1 And, then, lastly, we take seriously the
2 Company's offer to work with the communities on water
3 conservation. And, we anticipate we will follow up with
4 that. The OCA has expressed this, as the Staff, a
5 long-standing interest in these issues. And, we think
6 that's appropriate. Although, you would not know it from
7 this year, we understand that water will continue to be a
8 challenge for the Seacoast area as there's additional
9 growth. And, with that, thank you.

10 CHAIRMAN GETZ: Thank you.
11 Mr. Gearreald.

12 MR. GEARREALD: Thank you, Mr. Chairman.
13 This case has involved a great deal of data requests by
14 all the parties, for which the Town of Hampton is grateful
15 to the Staff, to the OCA, and to the Town of North Hampton
16 as well for participating. An audit -- two audits
17 actually have been conducted, as Mr. Naylor testified. A
18 lot of exploration, as Attorney Ratigan has just
19 commented, has occurred. A number of potential new
20 programs, as expressed in the testimony of Mr. Welch,
21 premarked as "Exhibit 17", the Town of Hampton has been
22 concerned about the frequency and magnitude of rate
23 increases. And, we feel that the WICA Program offers
24 promise in terms of decreasing the magnitude and certainly

1 decreasing potentially the frequency of the rate cases,
2 which may alleviate the rate shock that we -- is our major
3 concern with respect to this particular matter coming two
4 years, as it does, after the last increase.

5 We are not a signatory the Settlement,
6 largely out of concern for the magnitude of the rate
7 increases. Nevertheless, given the extensive data
8 requests that have occurred, the audits that have
9 occurred, our understanding of the Company's need for a
10 better realized rate of return, we are not objecting.
11 Thank you.

12 CHAIRMAN GETZ: Thank you.
13 Ms. Hollenberg.

14 MS. HOLLENBERG: Thank you. One
15 procedural note, just because I was the one who filed the
16 Settlement Agreement on Friday. We do have a new version
17 of the Settlement Agreement that we provided this morning
18 that has everyone's original signatures on them, and we
19 provided that to the Clerk.

20 The OCA does certainly appreciate the
21 professionalism and cooperation displayed by the parties
22 and Staff in this proceeding. We believe that the
23 Settlement Agreement viewed in its entirety is a fair,
24 reasonable resolution of the issues in this case. And, we

1 look forward to continue discussions about ways to promote
2 conservation in the Seacoast area and cooperative working
3 together with the parties and Staff in the implementation
4 of the WICA Pilot Program. We would ask the Commission to
5 approve the Settlement Agreement. And, we thank you for
6 your time this morning.

7 CHAIRMAN GETZ: Thank you.
8 Ms. Thunberg.

9 MS. THUNBERG: The Staff will not be
10 redundant. And, thank you for your time this morning.
11 And, everything that everyone has said in their closings
12 thus far Staff concerns with, and we appreciate your
13 consideration, especially of the WICA proposal that is
14 new. And, we're looking forward to working with the
15 Company and the parties. Thank you.

16 CHAIRMAN GETZ: Thank you.
17 Mr. Camerino.

18 MR. CAMERINO: Thank you, Mr. Chairman.
19 I'm not going to summarize the Settlement again, which I
20 think has been well addressed by the witnesses. The
21 Company, too, very much appreciates the extremely
22 constructive participation of all of the parties and Staff
23 in this proceeding. And, I think it really speaks very
24 highly of the regulatory process here in New Hampshire.

1 This case had a lot of what I'll call
2 "creative" and somewhat unusual proposals. Maybe
3 individually they weren't that remarkable, but together
4 it's a lot to bite off in one rate case. And, I think
5 some of those issues need some time to get fully fleshed
6 out. And, I think all of the parties showed a lot of
7 creativity and, you know, constructive approach in trying
8 to do what we could in this docket, what we could find
9 that we could agree upon, and leave other issues to
10 another day. And, I think this Settlement really reflects
11 that.

12 The Company also is very appreciative of
13 the participation of the municipalities in this case. I
14 think it is markedly different from the relationship that
15 the Commission saw in some prior cases. And, I think that
16 reflects well on everyone. I think the Towns have made a
17 real effort to work constructively with the Company, and
18 vice versus, and I think that the Consumer Advocate and
19 Staff have contributed to that through their efforts, and
20 I think that's -- you can see that here in this case
21 today.

22 The last thing I want to mention, just
23 by way of clarification, is there was a reference to the
24 "temporary rate reconciliation", and sometimes we confuse

1 our terminology. The temporary rates in this case were
2 effective with service rendered as of December 15, 2008,
3 even though the level of rates did not increase until
4 February of 2009. And, so, the reconciliation, as the
5 Agreement says, will go back to the effective date of
6 temporary rates, that being December 15, 2008.

7 Thank you. And, we would request that
8 the Commission approve the Settlement Agreement as
9 presented.

10 CHAIRMAN GETZ: All right. Then, thank
11 you, everyone. We will close the hearing and take the
12 matter under advisement.

13 (Whereupon the hearing ended at 11:36
14 a.m.)

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