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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 23, 2013 - 2:43 p.m.
Concord, New Hampshire

DAY 1

RE: DW 12-085
AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.:
Notice of Intent to File Rate Schedules.
(Hearing regarding permanent rates)

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Robert R. Scott
Commissioner Michael D. Harrington

Clare Howard-Pike, Clerk

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

Reptg. Town of North Hampton, N.H. and its
Water Commissioners:
John J. Ratigan, Esq. (Donahue, Tucker...)

Reptg. Town of Hampton, N.H.:
Mark S. Gearrard, Esq.

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Stephen R. Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A. Brown, Esq.
Mark A. Naylor, Director/Water & Gas Div.
Jayson P. Laflamme, Water & Gas Division
Robyn Descoteau, Water & Gas Division

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

NHPUC JUN05'13 AM 8:09

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15 4	Partial Settlement	premarked
16 5	Testimonies of Troy Dixon, Harry Hibbard and Carl McMorran, including attachments, etc. regarding permanent rates	premarked
18 6	Direct Testimony of John Walsh to adopt Testimony of H. Hibbard	premarked
20 7	Rebuttal Testimony of Troy Dixon and Carl McMorran, w/attachments	premarked
21 8	Rebuttal Testimony of Pauline Ahern, with attachments	premarked
22 9	Testimony of Mark A. Naylor, including attachments	premarked

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10	Testimony of Jayson P. Laflamme, including attachments	premarked
11	Testimony of Donna McFarland, with attachments, as corrected	premarked
12	Testimony of Scott J. Rubin, including attachments	premarked
13	Corrected Testimony of David C. Parcell, including attachments	Premarked
14	Surrebuttal Testimony of David C. Parcell, including schedules	premarked
15	Corrected Testimony of Frederick W. Welch, with attachments	premarked
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P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: Good afternoon,
3 everyone. I want to, first of all, thank everyone for
4 having an unusual schedule, to start at 2:30 in the
5 afternoon. We ended up double-booking today, and just
6 couldn't make it all work. And, so, I appreciate your
7 willingness to start late and to run late, so that it's a
8 meaningful block of time this afternoon. And, I
9 understand if there are people who have to leave earlier
10 than we're done, I completely understand it, and I
11 apologize for the inconvenience that that may be causing.
12 But we just -- we got ourselves caught in the blind with
13 too many things scheduled at the same time.

14 So, we will begin the hearing. This is
15 Docket DW 12-085, Aquarion Water Company of New
16 Hampshire's request for a permanent rate increase. And,
17 begin first with appearances.

18 MR. TAYLOR: Thank you. Patrick Taylor,
19 from the McLane law firm, representing Aquarion Water
20 Company of New Hampshire, Incorporated. With me today is
21 Steven Camerino, also of the McLane law firm; Troy Dixon,
22 from Aquarion; John Walsh, from Aquarion. Behind me is
23 Pauline Ahern, who is the Company's consultant in this
24 case; Carl McMorran, also from Aquarion; and Joshua Unger,

1 from Aquarion.

2 CHAIRMAN IGNATIUS: Good afternoon.

3 Thank you. Next party?

4 MR. RATIGAN: John Ratigan, representing
5 the Town of North Hampton and its Water Commissioners.
6 I'm with the Exeter law firm of Donahue, Tucker &
7 Ciandella. I'm accompanied by, to my immediate right,
8 Robert Landman, Henry Fuller, Richard Bettcher, all are
9 New Hampshire -- or, excuse me, all are North Hampton
10 Water Commissioners.

11 CHAIRMAN IGNATIUS: Good afternoon.

12 MR. RATIGAN: Thank you.

13 MR. GEARRALD: Good afternoon. My name
14 is Mark Gearrald. I'm the in-house Town Attorney for the
15 Town of Hampton. With me today is David Parcell, our
16 return on equity expert; Philip Bean, Chairman of the
17 Hampton Board of Selectmen; and Town Manager Frederick
18 Welch.

19 CHAIRMAN IGNATIUS: Good afternoon.

20 Welcome.

21 MR. GEARRALD: Thank you.

22 MS. HOLLENBERG: Good afternoon,
23 Commissioners. Rorie Hollenberg and Stephen Eckberg, here
24 for the Office of Consumer Advocate.

1 MS. BROWN: Good afternoon,
2 Commissioners. Marcia Thunberg -- sorry, Marcia Brown, on
3 behalf of Staff. With me today is Mark Naylor, Jayson
4 Laflamme, and Robyn Descoteau. Thank you.

5 CHAIRMAN IGNATIUS: Good afternoon. Are
6 there any matters to take up before we begin with
7 evidence? Mr. Taylor.

8 MR. TAYLOR: There was a Motion for
9 Confidential Treatment that was filed. And, to the extent
10 that the Commission wants to take any -- or, give any
11 questions on that, I'm happy to do so. I'll note that
12 there haven't been any objections to the motion, and the
13 motion covers information that is -- the Company believes
14 is customarily granted confidential treatment before the
15 Commission. So, we'd ask that you consider that.

16 CHAIRMAN IGNATIUS: Thank you. It's a
17 motion, if anyone hasn't seen it or has forgotten about
18 it, it was filed on May 13th, and involves responses to
19 discovery requests. Is there any party with any
20 opposition to the motion?

21 MS. HOLLENBERG: Excuse me, Patrick.
22 (Atty. Hollenberg and Atty. Taylor
23 conferring.)

24 MR. TAYLOR: Yes. I've been reminded

1 that there is one item in the motion that I'd like to
2 clarify. One of the data requests, Staff 2-10, has the
3 redacted salary information of non-officer employees, also
4 in the data request are the names of the non-officer
5 employees that correspond to those salaries. I believe in
6 the motion it says that we're seeking confidential
7 treatment of the "names and the salaries" of those
8 individuals. In reality, we are just seeking confidential
9 treatment of the salary information. And, we've actually
10 disclosed those names in other data requests that are part
11 of this motion. And, so, what we can do is file a
12 supplemental response that makes public the employee
13 names, but keeps confidential the non-officer employee
14 salary information.

15 And, so, to the extent that this motion
16 seeks confidential treatment for salary information, that
17 remains in effect for all of the data requests that we've
18 mentioned here. But, with respect to the names of the
19 employees, we're not seeking confidential treatment.

20 CHAIRMAN IGNATIUS: All right. And, the
21 salary information is still public as in an aggregate
22 form?

23 MR. TAYLOR: Yes. Yes. And, within
24 those data requests, the aggregate information is

1 provided.

2 (Chairman and Commissioners conferring.)

3 CHAIRMAN IGNATIUS: We've reviewed it
4 and hadn't spoken among ourselves, but we have no
5 opposition to the request, and we'll grant the Motion for
6 Confidentiality.

7 MR. TAYLOR: Thank you.

8 MR. GEARRALD: Madam Chairman?

9 CHAIRMAN IGNATIUS: There was also a --
10 one moment, just real quick, Mr. Gearrald. There is also
11 a request for a waiver of the day for filing a settlement
12 agreement, and that we have no difficulty in granting. It
13 was short, easy to read in the quick time before the
14 hearing. And, if it helps to streamline the presentation
15 of issues, we're happy to facilitate that. We understand
16 it's a Partial Settlement, partial both in terms of the
17 number of parties involved and partial as to the issues
18 involved. Mr. Gearrald.

19 MR. GEARRALD: Thank you, madam
20 Chairman. The testimony of our Chairman, Philip Bean, has
21 been previously submitted as an exhibit and it's on the
22 list that the Commission got today. At the time that --
23 he had actually been one to testify at the public
24 statement hearing that the Commission held. The

1 transcript of that statement is in the record of this
2 Commission. We would like him to be able to testify to
3 points he made in that public statement hearing, and,
4 therefore, would like to be assured that that particular
5 public statement hearing transcript is part of the record
6 and can be referred to. It was his remarks at the public
7 statement hearing were incorporated into his testimony.

8 MR. TAYLOR: I'm just going to note our
9 objection to that. This is something that we're just
10 hearing about today. That public hearing was, I believe,
11 over six months ago. There was never notification given
12 that there was an intent to incorporate Mr. Bean's
13 testimony at the public hearing into the testimony that he
14 prefiled in this case. The transcript that Mr. Gearrald
15 is referring to is a rather lengthy transcript, where I'm
16 going to say several dozen people testified. And, I think
17 that I would have concerns about that transcript being
18 entered into evidence in this case for the contents of
19 what's said within there. You know, we had no opportunity
20 to respond to this testimony. We don't, you know, we
21 weren't aware that it was going to be part of the record
22 in this case. So, I would just note that objection.

23 CHAIRMAN IGNATIUS: Well, let me
24 clarify. It is already a part of the record, and will

1 continue to be part of the record, as unsworn statements.
2 And, so, I'm not sure what the request is beyond that. Is
3 it -- and we also have the thing that's marked as "16"
4 Testimony of Philip Bean", is that the portion of the
5 transcript is what you wanted marked as an exhibit?

6 MR. GEARRALD: Yes. His testimony at --

7 CHAIRMAN IGNATIUS: Well, I think that
8 does raise questions then, if it's to be testimony that
9 would be on the stand would be equivalent to testimony
10 that would be sworn and subject to cross-examination and
11 discovery along the way. It does seem to me an unfair
12 surprise to everyone at this late date to put it in as if
13 it were -- had been through all of that process, if it has
14 not.

15 MR. GEARRALD: I'm referring in his
16 testimony on Page 2, he indicates that he and three other
17 members of the Board testified at the public comment
18 hearing, his own comments, including letting the
19 Commission know about materials he looked upon concerning
20 Aquarion. The parent company has been engaged in a series
21 of acquisitions in Connecticut. And, he noted that he
22 understood the reporter was in the process of generating
23 the transcript, and so that he wouldn't be repeating the
24 comments in that light. That's how this comes about.

1 CHAIRMAN IGNATIUS: All right. I
2 misunderstood. It's not to take the transcript and
3 introduce that as an exhibit --

4 MR. GEARRALD: His comments would be, as
5 part of what he would testify to. So, there was notice of
6 what he would testify to.

7 MR. TAYLOR: I'm just going to restate
8 my objection. If Mr. Bean wanted to incorporate those
9 comments into his testimony, he had an opportunity to do
10 that. And, I don't think it's appropriate to now
11 introduce separate comments that were taken at a different
12 venue, at a different time, and now incorporate them in.
13 I think Mr. Gearrard's point is that Mr. Bean's testimony
14 came after the public hearing. If that's the case,
15 Mr. Bean had the opportunity to get his comments into that
16 testimony. We've had the opportunity, we've had the
17 discovery process already. And, I'm not sure what it was
18 -- what the contents of his comments were at the hearing,
19 but we haven't had any opportunity to take discovery on
20 them. So, I'm just going to restate my objection.

21 MR. GEARRALD: I believe they have, your
22 Honor.

23 CHAIRMAN IGNATIUS: Yes. I'm still not
24 entirely sure I understand what it is that you're asking.

1 But, to the extent you're asking for Mr. Bean to go beyond
2 what he filed in the written testimony that's
3 Exhibit 16, --

4 MR. GEARRALD: To include his comments
5 that were made at the public statement hearing, the
6 transcript of which was still in the process of being
7 prepared at that time.

8 CHAIRMAN IGNATIUS: If he wants to
9 reference the fact that he testified, that's fine, at that
10 public hearing, that's fine. To have him restate what he
11 said at the public hearing or to have the statements at
12 the public hearing somehow appended to Exhibit 16, then
13 that request is denied.

14 MR. GEARRALD: Okay. Thank you.

15 CHAIRMAN IGNATIUS: Are there any other
16 matters? I guess we also have testimony filed just today
17 from Mr. Landman. And, I don't know if there's any
18 positions by other parties as to the request for something
19 to come in on the day of hearing?

20 MS. BROWN: Staff will speak to that.
21 When Mr. Landman circulated his testimony among all of us,
22 we did have an opportunity to discovery upon it. It was
23 an oversight on his part on the proper filing procedure.
24 He misunderstood that e-mailing satisfied the filing

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 requirement. So, today's filing is more of a clean-up on
2 his part. Although, I understand that the Commissioners,
3 you know, that you are just seeing his testimony for the
4 first time today.

5 CHAIRMAN IGNATIUS: Well, it was short,
6 so, we were able to get through it. Is there any other --
7 anything else to mention on that? It's something,
8 obviously, you've seen for quite awhile, and it's just a
9 matter of getting it formally before us?

10 (No verbal response)

11 CHAIRMAN IGNATIUS: All right. Then,
12 we'll accept that. Thank you. Other procedural matters,
13 before we begin with evidence?

14 (No verbal response)

15 MR. TAYLOR: What we've agreed -- as you
16 know, there's a Settlement Agreement that's been
17 submitted. So, our proposal was to first put on a panel
18 of Mr. Dixon from the Company, Mr. Naylor from the Staff,
19 and Mr. Eckberg from the Office of Consumer Advocate, to
20 explain the Settlement Agreement, before we proceed beyond
21 that.

22 CHAIRMAN IGNATIUS: All right. That's
23 fine. Thank you. Then, why don't you seat your
24 witnesses.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 As people are getting settled, let me
2 also mention that we will run this evening certainly no
3 later than 7:00, and I think it will depend a little on
4 where we are at a breaking point. If it's between 6:00
5 and 7:00, we'll see where we are. And, if it's 6:30, and
6 we're finishing up with a witness, we wouldn't start a new
7 one. But let's just kind of see where a break that makes
8 sense, but certainly no later than seven.

9 (Whereupon **Troy M. Dixon, Stephen R.**

10 **Eckberg,** and **Mark A. Naylor** were duly

11 sworn by the Court Reporter.)

12 **TROY M. DIXON, SWORN**

13 **STEPHEN R. ECKBERG, SWORN**

14 **MARK A. NAYLOR, SWORN**

15 **DIRECT EXAMINATION**

16 BY MR. TAYLOR:

17 Q. Mr. Dixon, will you please state your name, your
18 employer, and your business address for the record.

19 A. (Dixon) My name is Troy Dixon. I'm employed by
20 Aquarion Water Company of Connecticut. And, the
21 business address is 600 Lindley Street, in Bridgeport,
22 Connecticut.

23 Q. Mr. Eckberg, could you please state your name, your
24 employer, and your business address for the record.

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Eckberg) My name is Stephen Eckberg. I'm employed by
2 the Office of Consumer Advocate. And, my business
3 address is 21 South Fruit Street, Suite 18, Concord,
4 New Hampshire.

5 Q. And, Mr. Naylor, would you please state your name,
6 employer, and business address for the record.

7 A. (Naylor) Yes. My name is Mark Naylor. I am the
8 Director of the Gas & Water Division here at the New
9 Hampshire PUC. Business address, 21 South Fruit
10 Street, Suite 10, Concord, New Hampshire.

11 MR. TAYLOR: Before I ask Mr. Dixon to
12 walk us through the Settlement Agreement, do the
13 Commissioners require a copy of it?

14 CHAIRMAN IGNATIUS: No. We have copies.
15 Thank you.

16 BY MR. TAYLOR:

17 Q. Mr. Dixon, are you familiar with the Settlement
18 Agreement marked as "Exhibit 4" in this case?

19 A. (Dixon) Yes, I am.

20 Q. Did you participate in the process that resulted in the
21 Settlement Agreement?

22 A. (Dixon) I did.

23 Q. Is this Partial Settlement Agreement the result of a
24 compromise between Aquarion, the Staff of the Public

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Utilities Commission, and the Office of Consumer
2 Advocate?

3 A. (Dixon) Yes. It's a compromise on -- it's a compromise
4 between Aquarion, the OCA, and Staff, on issues raised
5 in OCA testimony, Staff's testimony, with the exception
6 of the ROE issue. And, that Settlement is not intended
7 to be a settlement on the issues -- I'm sorry, is not
8 intended to be a precedent on the issues in that
9 Settlement.

10 Q. Okay. So, what I understand you to say is that it's a
11 compromise of the issues which -- among the Company,
12 the Staff, and the OCA in this case, with the exception
13 of return on equity?

14 A. (Dixon) Yes. That's correct.

15 Q. Mr. Dixon, how does the Settlement Agreement address
16 the issue of the Company's revenue requirement?

17 A. (Dixon) The revenue requirement can be calculated from
18 Attachment JPL-1 to Mr. Laflamme's testimony, along
19 with certain additional adjustments and the adjustments
20 that are within the context of the Settlement
21 Agreement.

22 Q. Okay. And, when you say "certain adjustments", I think
23 you're referring to some adjustments that were
24 recommended in Mr. Laflamme's testimony, is that

1 correct?

2 A. (Dixon) Yes. That is correct.

3 Q. Okay. What is the Parties' agreement with respect to
4 capital structure?

5 A. (Dixon) We have agreed to a capital structure of 59.24
6 percent debt, 0.1 percent preferred stock, and
7 40.75 percent equity, and an overall cost of debt of
8 6.05 percent.

9 Q. What are the result -- I'm sorry. What other
10 adjustments will result from the Settlement?

11 A. (Dixon) We've agreed to a rate base figure of
12 \$22,507,605. We've agreed to a reduction in property
13 taxes associated with the most current property tax
14 bills. And, we've also agreed to withdraw the
15 Company's petition for a deferral associated with the
16 first 15 months of the new ROW tax.

17 Q. Okay. Was the Company successful in its suit against
18 the Town of Hampton to invalidate the 2011 and 2012 ROW
19 tax assessments?

20 A. (Dixon) Yes, we were.

21 Q. How then will the portion of the rates that are
22 attributable to that tax be treated in the
23 reconciliation of permanent rates?

24 A. (Dixon) The ROW tax would only be reconciled back to

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 April 2013, the effective date of that tax.

2 Q. Mr. Dixon, what issues raised in the testimony of the
3 Office of Consumer Advocate have been resolved by this
4 Agreement?

5 A. (Dixon) The OCA has agreed to withdraw certain
6 adjustments for wages, incentive compensation, as well
7 as an adjustment associated with affiliate wages.

8 Q. The Settlement Agreement contains provisions related to
9 the Company's WICA Program. Could you please summarize
10 those for the Commission.

11 A. (Dixon) OCA is willing to or has agreed to defer
12 evaluation of the WICA Program until the next rate
13 case. In addition, we have agreed to remove customer
14 meters from the tariff language. In addition, for the
15 first \$50,000 of emergency replacement services,
16 hydrants, and valves, we've agreed that those are not
17 WICA-eligible. And, finally, we've agreed, in each
18 WICA filing, to update our main prioritization
19 schedule, as well as our T&D mains inventory.

20 Q. Okay. And, when you were talking about the first
21 \$50,000 of certain emergency replacements, that's in a
22 given year's WICA filing, correct?

23 A. (Dixon) That's on an annual basis, yes.

24 Q. The Parties have made a recommendation regarding the

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 step adjustment for the surcharge related to the 2012
2 WICA projects. Could you please explain how that
3 works.

4 A. (Dixon) We recommend a step increase associated with
5 the 2012 projects that were approved in the most recent
6 WICA filing, that was approved in January of 2013.
7 We've also agreed that the rate of return to be used in
8 that step adjustment would be the rate of return
9 approved in this filing. We've also agreed that the
10 step adjustment would not be reconciled back to the
11 date of temporary rates. And, we've also agreed to
12 provide documentation of our calculation of that step
13 adjustment with our compliance tariffs.

14 Q. Okay. And, just to clarify, what will happen to the
15 WICA surcharge when the new permanent rates go into
16 effect?

17 A. (Dixon) The WICA surcharge will be reset to zero.

18 Q. Mr. Dixon, how does the Settlement Agreement modify new
19 fees proposed by the Company in its initial filing?

20 A. (Dixon) We had proposed a Missed Appointment Fee as
21 part of the initial filing. The Settlement Agreement
22 agrees that that will be a reciprocal fee. Whereas, if
23 the Company is late for an appointment, we will give
24 the customer a credit back as well. There's also a

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Collect-at-the-Door Fee that we had proposed. We have
2 agreed not to charge that fee the first time in a given
3 year that we have to charge a customer for paying their
4 bill when we go to shut them off.

5 Q. Mr. Dixon, are there any other provisions in the
6 Settlement Agreement?

7 A. (Dixon) Yes. We have agreed to file a cost of service
8 study as part of our next rate filing.

9 MR. TAYLOR: I'm just going to give, if
10 I may approach?

11 CHAIRMAN IGNATIUS: Yes.

12 MR. TAYLOR: I'm going to mark an
13 exhibit as "Exhibit 18".

14 MS. BROWN: Attorney Taylor, at this
15 point, I think, if I could interrupt, we've also not
16 addressed that -- we handed out to the Commissioners and
17 the Clerk a list of premarked exhibits. And, I just
18 wanted to expressly state that this is by agreement of the
19 Parties that we wish to use these numbers for these
20 exhibits. Thank you.

21 MR. TAYLOR: Thanks.

22 CHAIRMAN IGNATIUS: Thank you. And,
23 that's helpful for all of us.

24 (Atty. Taylor distributing documents.)

1 BY MR. TAYLOR:

2 Q. Mr. Dixon, before we talk about this schedule, I just
3 wanted to clarify something you've said about the
4 Missed Appointment Fee. The Missed Appointment Fee,
5 would it apply if the -- the reciprocal fee, would that
6 apply if the Company, I heard you say that if the
7 Company were late for -- if it were late for an
8 appointment, I understand the Settlement to say that if
9 you fail to appear for an appointment?

10 A. (Dixon) Yes. That's correct.

11 Q. Okay. With respect to the schedule that I just handed
12 out, Mr. Dixon, could you just please explain the
13 purpose of this schedule.

14 A. (Dixon) We put this schedule together for illustrative
15 purposes, to demonstrate the different adjustments that
16 we had made, both those adjustments that are
17 incorporated in the attachment to Mr. Laflamme's
18 testimony, as well as the adjustments made in the
19 Settlement Agreement. The adjustments provided in the
20 attachment to Mr. Laflamme's testimony are Items
21 Numbers Line -- sorry, Line Items 1 through 28. Below
22 Line Items 30 through 41 reflect adjustments made
23 through the Settlement Agreement. And, finally, again,
24 for illustrative purposes, we've used an ROE of 9.75 in

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 determining the overall revenue requirement. We chose
2 that ROE based on the ROE that was determined as part
3 our last rate case, again, just to show what the
4 overall revenue requirement would be with that 9.75.
5 You can substitute any ROE in that last adjustment and
6 calculate a corresponding revenue requirement.

7 Page 2 of the schedule is simply the
8 calculation of the overall revenue deficiency shown on
9 the first page.

10 Q. Thank you, Mr. Dixon. And, just to clarify, what I
11 understood you to say is, whatever the final return on
12 equity that's determined in this case is, that could be
13 plugged into this schedule and it would yield the
14 accurate revenue deficiency?

15 A. (Dixon) Yes. That's correct. And, on Page 2 of this
16 schedule, there is a calculation of, you know, what
17 each 100 basis points in the ROE is worth, so you can
18 use that to determine the impact of whatever ROE is
19 decided.

20 Q. Mr. Dixon, do you believe this Settlement is in the
21 public interest?

22 A. (Dixon) I do.

23 MR. TAYLOR: I have no further questions
24 for Mr. Dixon on the Settlement Agreement.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 CHAIRMAN IGNATIUS: Is there any other
2 direct --

3 MS. HOLLENBERG: Yes.

4 CHAIRMAN IGNATIUS: -- from
5 Ms. Hollenberg or Ms. Brown? Ms. Hollenberg.

6 MS. HOLLENBERG: Yes. I'm happy to
7 defer to Staff, if they would like to go first?

8 MS. BROWN: No, why don't you.

9 MS. HOLLENBERG: Okay. Thanks.

10 BY MS. HOLLENBERG:

11 Q. Mr. Eckberg, you have identified yourself and your
12 position at the OCA. And, so, I'm going to ask you,
13 are you sponsoring written testimony submitted by Donna
14 McFarland in this case?

15 A. (Eckberg) Yes, I am. That's correct.

16 Q. And, is this because Ms. McFarland is no longer
17 employed at the OCA?

18 A. (Eckberg) That is also correct, yes.

19 MS. HOLLENBERG: Ms. McFarland filed a
20 corrected version of her testimony on February 7th, 2013.
21 And, I just would like to ask you to look at that, because
22 there is a correction -- there are a couple of corrections
23 that I'd like to call to the Commission. May I approach?

24 CHAIRMAN IGNATIUS: Please.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 MS. HOLLENBERG: I had knee surgery, so
2 I'll move --

3 CMSR. HARRINGTON: What was the date on
4 that again?

5 MS. HOLLENBERG: It was filed on
6 February 7th, the corrected version. But, as Mr. Eckberg
7 will explain, it was not correctly dated. So, I'll ask
8 him to correct that right now.

9 WITNESS ECKBERG: That's correct. Our
10 office filed a corrected version of Ms. McFarland's
11 testimony on February 7th. That filing included a cover
12 letter dated February 7th, which itemized a number of
13 editorial and page reference type corrections to the
14 testimony, which was originally filed on January 11th.
15 When we filed the corrected version of the testimony on
16 February 7th, we neglected to adjust the cover page of the
17 testimony itself, which was, and still is, I believe,
18 marked as "OCA Exhibit 1", for the purposes of today's
19 hearing it bears another exhibit number, but -- so, the
20 two corrections we would offer, I would offer to today,
21 are that the testimony of Ms. McFarland should say, on the
22 cover of it, it should say "Corrected Direct Prefiled
23 Testimony", and we have also struck the original date of
24 "January 11th, 2013", and entered the correct date when it

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 was filed of "February 7th, 2013".

2 MS. HOLLENBERG: Thank you. And, just
3 to let the Commission know, I did provide a corrected
4 version to the Clerk this afternoon.

5 CHAIRMAN IGNATIUS: All right. And,
6 that's what is identified as "Exhibit 11"?

7 MS. HOLLENBERG: Yes, ma'am.

8 CHAIRMAN IGNATIUS: All right. Thank
9 you.

10 BY MS. HOLLENBERG:

11 Q. Thank you, Mr. Eckberg, for making those corrections.
12 Do you agree that Ms. McFarland's testimony recommended
13 certain adjustments to the Company's proposed revenue
14 requirement, as well as the filing of a cost of service
15 study in the next base rate case.

16 A. (Eckberg) Yes. Those recommendations are in
17 Ms. McFarland's testimony, which I have adopted,
18 beginning on Page 3 and extending onto Page 4, yes.

19 Q. And, Mr. Scott Rubin filed testimony on behalf of the
20 OCA as well, is that correct?

21 A. (Eckberg) Yes, he did.

22 Q. And, if I could just show you this document, which I
23 won't provide a copy to the Clerk, because it's
24 identical to the document I'm showing Mr. Eckberg. Do

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 you recognize that testimony as Mr. Rubin's testimony?

2 A. (Eckberg) Yes, I do recognize it.

3 Q. And, are you aware of any corrections that need to be
4 made to Mr. Rubin's testimony?

5 A. (Eckberg) No, I'm not aware of any corrections.

6 MS. HOLLENBERG: And, just if the
7 Commission would identify this as "Exhibit 12", which is
8 listed on the Exhibit List. Thank you.

9 BY MS. HOLLENBERG:

10 Q. Do you agree that Mr. Rubin's testimony concerned the
11 operation of the WICA Pilot Program and raised some
12 concerns that the OCA had about that program?

13 A. (Eckberg) Yes.

14 Q. Specifically, the Company's -- what the OCA perceived
15 as the Company's lack of objective evidence about the
16 link of WICA spending to reliability and safety
17 benefits?

18 A. (Eckberg) Yes. Mr. Rubin addressed those issues.

19 Q. And, do you also agree that Mr. Rubin raised concerns
20 about increases in lost and unaccounted for water and
21 decreases in O&M spending on system maintenance, which
22 suggested to the OCA a shift in priorities from the
23 Company from normal operating expenses to rate of
24 return eligible capital investments?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Eckberg) Yes. Mr. Rubin's discussion of those issues
2 began on Page 5 of his testimony.

3 Q. And, lastly, do you agree that Mr. Rubin's testimony
4 also identified concerns about the Company's new tariff
5 proposals, the fee proposals that Mr. Dixon referred to
6 a moment ago?

7 A. (Eckberg) Yes. On Page 13 of his testimony, in the
8 section titled "Proposed Tariff Changes", Mr. Rubin
9 addressed certain concerns about those.

10 Q. Thank you. And, you are here testifying on a panel
11 about the Partial Settlement terms that Mr. Dixon just
12 testified about. And, I'd like to just go through a
13 few questions with you to help the Commission
14 understand how the Settlement resolved the concerns
15 that the OCA raised in its testimony. This Partial
16 Settlement has been marked as "Exhibit 4". Do you have
17 a copy of that in front of you?

18 A. (Eckberg) Yes, I do.

19 Q. And, you participated in the discussions that resulted
20 in this Agreement, is that correct?

21 A. (Eckberg) Yes, I did participate.

22 Q. And, do you agree that the terms of this Partial
23 Settlement represent a reasonable compromise of issues
24 raised in the OCA's testimony?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Eckberg) Yes, I do.

2 Q. With respect to Ms. McFarland's conclusions and
3 recommendations, do you agree that the Partial
4 Settlement provides for a cost of service study to be
5 filed in the next rate case, which is Item Number 13,
6 correct?

7 A. (Eckberg) Yes, it is. Just let me check the Settlement
8 Term Sheet. Yes. Item 13 is the one that addresses
9 the cost of service study, correct.

10 Q. And, that it memorializes the OCA's agreement to
11 withdraw certain objections for purposes of settlement
12 to the wage expense levels reflected in the calculation
13 of the new revenue requirement, is that correct?

14 A. (Eckberg) That is correct.

15 Q. And, that's Term Number 5?

16 A. (Eckberg) Yes, it is.

17 Q. And, in deciding to withdraw these expense objections,
18 do you agree that the OCA was mindful of the other
19 revenue requirement reductions that the Company agreed
20 to, for instance, the adjustments raised in Staff's
21 testimony?

22 A. (Eckberg) Yes. Absolutely. We were mindful of all the
23 other adjustments.

24 Q. Thank you. With respect to Mr. Rubin's conclusions and

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 recommendations, do you agree that the Partial
2 Settlement Agreement provides for potential -- provides
3 the potential for improvements to the Pilot WICA
4 Program?

5 A. (Eckberg) Yes. I do believe that it provides for the
6 potential for improvements, absolutely.

7 Q. And, specifically, Term Number 8, which restricts
8 spending to incremental costs associated with certain
9 kinds of infrastructure, for instance, services, and
10 Term 7, which excludes meters from WICA cost recovery,
11 do you agree that these terms are responsive to the
12 OCA's concerns that WICA only be used for planned
13 incremental capital expenditures for safety and
14 reliability purposes?

15 A. (Eckberg) Yes, I do.

16 Q. In addition to being consistent with Mr. Rubin's
17 testimony, would you agree, and I'll give you a couple
18 of examples, that these terms, number 7 and 8, are also
19 consistent with the Company's testimony in this
20 proceeding and with its tariff?

21 A. (Eckberg) Okay.

22 MS. HOLLENBERG: And, if I could
23 approach the witness please?

24 CHAIRMAN IGNATIUS: Please.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 MS. HOLLENBERG: Thank you.

2 BY MS. HOLLENBERG:

3 Q. And, what I'd just like to show you, the Company's
4 tariff -- actually, I'll show you the testimony first.
5 What I'd like to show you is, in the Company's direct
6 testimony filing, --

7 MS. HOLLENBERG: Is that Exhibit 1, the
8 Petition?

9 MR. TAYLOR: That would be Exhibit 5.

10 MS. HOLLENBERG: The original Petition?

11 MR. TAYLOR: The original Petition is
12 Exhibit 5 in this case.

13 MS. HOLLENBERG: Exhibit 5. Thank you.

14 BY MS. HOLLENBERG:

15 Q. Exhibit 5, at Bates Page 91, which is Mr. Dixon's
16 testimony, Pages -- Lines 5 to 7, that he states that
17 "The WICA is intended to" -- sorry.

18 A. (Eckberg) His testimony here states that "The WICA,
19 which is similar to the Distribution System Improvement
20 Charge that has been implemented in a number of states,
21 was intended to increase system reliability, improve
22 service to the customer, and reduce water loss due to
23 leakage." Which I believe is quite similar to --

24 Q. It's consistent with the concerns that Scott mentioned,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 and that we believe are addressed in the Partial
2 Settlement Agreement, is that correct?

3 A. (Eckberg) Yes. The testimony of Mr. Rubin, yes.

4 Q. Excuse me. Thank you. And, with respect to the
5 Company's tariff, Second Revised Page 16, do you agree
6 that that provides that the Company -- the WICA
7 provides the Company with the resources to accelerate
8 asset replacement for infrastructure for the purpose of
9 improving or protecting water quality and the
10 reliability of service, and to comply with evolving
11 regulatory requirements imposed by the Safe Drinking
12 Water Act?

13 A. (Eckberg) Yes. That's exactly the language that the
14 Company has in its tariff here, on Second Revised
15 Page 16.

16 Q. Thank you. Do you agree that the Partial Settlement
17 also improves and increases the Company's annual
18 reporting requirements for the WICA Pilot, as Mr. Rubin
19 recommended in testimony, at Term Number 9?

20 A. (Eckberg) Yes, I agree with that.

21 Q. And, specifically, this term requires the Company to
22 include in its annual filing documentation of its
23 ongoing WICA prioritization and spending analysis?

24 A. (Eckberg) Yes. That's what Term Number 9 provides for.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. And, is it your understanding that this reporting
2 requirement is akin to the reporting that is presently
3 required in the Company's -- of the Company's
4 Connecticut affiliate?

5 A. (Eckberg) Yes. There's no mention of -- specific
6 mention here in the Settlement about the Connecticut
7 issue. But, based on Mr. Rubin's testimony, on Page
8 12, I believe, he discusses some of those Connecticut
9 reporting issues.

10 Q. Thank you. And, does the OCA view this term as
11 providing the Company with an opportunity to
12 demonstrate in its next rate case how the WICA
13 increases system reliability and other benefits?

14 A. (Eckberg) We believe it does provide that opportunity,
15 and we're hopeful that it will.

16 Q. And, when you talk about the Company demonstrating
17 these benefits of the WICA in the next rate case,
18 that's because the WICA is not being evaluated in this
19 rate case, it's being evaluated -- it's being evaluated
20 in the next rate case, provided by Term Number 6?

21 A. (Eckberg) That's correct.

22 Q. The Partial Settlement Agreement does not require the
23 Company to address increasing lost water, unaccounted
24 for water, or decreases in transmission and

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 distribution O&M spending, which issues Mr. Rubin
2 raised in his testimony. However, would you agree
3 that, with the deferral of the Pilot WICA evaluation
4 until the next rate case, the OCA looks to the Company
5 to operate the WICA Pilot in a manner that creates
6 discernable objective evidence that it is being used
7 for capital spending that will improve the reliability
8 and/or the safety of the Company's service to
9 customers?

10 A. (Eckberg) I agree. That's certainly the OCA's
11 expectation, yes.

12 Q. Thank you. And, the Partial Settlement Agreement
13 incorporates the changes Mr. Rubin recommended for the
14 Company's new "Pay-at-the-Door Fee and the Missed
15 Appointment Fee, as Mr. Dixon mentioned before, those
16 are Terms Number 11 and 12. Do you agree that these
17 terms of settlement provide a more balanced and
18 reasonable structure and application of these fees for
19 customers?

20 A. (Eckberg) Yes, I believe they do.

21 Q. In deciding to resolve the -- resolve this matter
22 through the Partial Settlement, would you agree that
23 the OCA considered the cost to itself and other parties
24 associated with this advocacy, which costs will be

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 avoided if the Commission approves the Partial
2 Settlement, without a fully litigated hearing?

3 A. (Eckberg) We certainly did consider that, yes.

4 MS. HOLLENBERG: I believe that's all
5 the questions I have. Thank you. I appreciate the time.

6 CHAIRMAN IGNATIUS: Thank you.

7 Ms. Brown.

8 MS. BROWN: Thank you. Mr. Naylor, I
9 just have a few qualifying questions, and then a handful
10 of questions about the Partial Settlement.

11 BY MS. BROWN:

12 Q. Can you please describe your area of expertise?

13 A. (Naylor) Yes. I'm an accountant.

14 Q. And, will the testimony you are providing in the
15 hearing regarding this proceeding going to be within
16 that area of expertise?

17 A. (Naylor) Yes, for the most part.

18 Q. Did you file testimony in this docket?

19 A. (Naylor) Yes, I did.

20 Q. And, are you aware that's marked for identification as
21 "Exhibit 9"?

22 A. (Naylor) I'm not, but I am now.

23 Q. Okay.

24 A. (Naylor) Thank you. Exhibit 9.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Do you have any corrections or changes to make to your
2 testimony?

3 A. (Naylor) No, I don't.

4 Q. Have you seen a copy of the Partial Settlement that
5 we've been discussing this morning?

6 A. (Naylor) Yes.

7 Q. Or, this afternoon. And, are you aware of any changes
8 or corrections that you would wish to make to the
9 Partial Settlement?

10 A. (Naylor) No.

11 Q. And, does Staff agree with the terms expressed in the
12 Partial Settlement?

13 A. (Naylor) Yes, we do.

14 Q. Is Staff's agreement with the terms unconditional?

15 A. (Naylor) The Partial Settlement should not be viewed as
16 being inconsistent with the Staff's testimony.

17 Particularly, with respect to the issue of what I

18 identified in testimony as a reduced risk associated

19 with the continuation of the WICA Pilot, that I

20 discussed at Pages 3 and 4 of my testimony, I still

21 believe that that's an appropriate recommendation. But

22 I don't believe that's inconsistent with what is being

23 presented to the Commission today, in terms of the

24 Partial Settlement and the terms therein, as well as

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 the fact that the equity return is to be determined
2 through litigation in this proceeding. So, that's the
3 only -- the only comment I would offer on that.

4 Q. Okay. With respect to the revenue requirement that's
5 referred to in the Partial Settlement Agreement, do you
6 have an opinion as to the just and reasonableness of
7 that revenue requirement?

8 A. (Naylor) Well, we don't know exactly what it will be,
9 because we don't know exactly what the equity return
10 will be. But I believe that all of the adjustments
11 that are being proposed, the rate base that's being
12 proposed, all the other components of the Company's
13 revenue requirement are appropriate. And, so, we
14 certainly will support and can support the revenue
15 requirement that eventually is determined, if the
16 Commission approves the Partial Settlement and
17 subsequently makes a determination on the appropriate
18 equity return.

19 Q. Do you have an opinion as to the prudent, used and
20 usefulness of any rate base in this revenue
21 requirement?

22 A. (Naylor) We, after our examination of the Company's
23 filing, following an audit by our Audit Staff, we
24 believe that the plant proposed for inclusion in rate

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 base is used and useful.

2 Q. Mr. Naylor, does the Partial Settlement address how the
3 rate increase will be applied to the rate classes?

4 A. (Naylor) It does not.

5 Q. Do you have an opinion on that?

6 A. (Naylor) We would certainly advocate that the -- in the
7 absence of evidence, based on cost studies that would
8 call for a different application, we would support an
9 increase for all customer classes equally, for whatever
10 rate increase is ultimately determined.

11 MS. BROWN: The Staff has no further
12 questions of the panel.

13 CHAIRMAN IGNATIUS: Thank you. Then,
14 let's go to cross-examination. And, Mr. Ratigan, do you
15 have questions?

16 MR. RATIGAN: Just a couple. May I
17 approach the --

18 CHAIRMAN IGNATIUS: Yes, of course.

19 MR. RATIGAN: I have a copy of the
20 Commission's order in the last rate case involving the
21 Aquarion. And, the questions I have relate to the
22 Commission's analysis on Page 12 and 13 of that order.
23 Particularly, its conclusion about -- is the microphone
24 picking me up all right?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 CHAIRMAN IGNATIUS: I can hear you. I'm
2 not sure people behind you can.

3 MR. RATIGAN: Okay. Then, I'll go back.
4 Particularly with respect to the adjustments that were
5 made to customer classes concerning fire protection, and
6 the Commission's application of the differential and the
7 increase in connection fees and the application of the 70
8 percent cost for full fire protection expense that was
9 adopted by the Commission.

10 And, may I approach the witness please?

11 CHAIRMAN IGNATIUS: Yes, you may. And,
12 I don't know if you're seeking to make this an exhibit.
13 It's in the public record, so it may not be necessary.
14 But --

15 MR. RATIGAN: My thinking was is that
16 you have it as a public record, but it would probably be
17 useful for you to have it, to look at it as I ask not only
18 this witness a question or two, but my witness questions
19 about it.

20 **CROSS-EXAMINATION**

21 BY MR. RATIGAN:

22 Q. Directing your attention, Mr. Naylor, to Page 13 of the
23 order, would it be fair to say that the Commission
24 adopted the application of those connection fees as a

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 means of defraying the cost of the fire protection
2 class?

3 A. (Naylor) That's correct.

4 Q. And, it would be fair to say that the Commission
5 reduced from 75 percent to 70 percent as the
6 appropriate cost allocation for public fire protection?

7 A. (Naylor) Yes. That was what the Settling Parties
8 recommended in that case and the Commission approved.

9 Q. And, as a matter of fact, the Commission in the third
10 paragraph of that, on Page 13, or second full
11 paragraph, goes into an analysis where the Commission
12 not only approved the modification, but said it was
13 "not unjust and unreasonable", and that the Commission
14 would "revisit the allocations amongst customer classes
15 at the time of Aquarion's next Cost of Service study."
16 There hasn't been a new cost of service study, has
17 there?

18 A. (Naylor) Not since the Company's 2005 rate case, I
19 believe.

20 Q. And, do you think that a reasonable person reading this
21 order would understand this order to mean that, until
22 there's a cost of service study, then this application
23 will continue?

24 A. (Naylor) I think that's one way you can interpret it,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 sure.

2 MR. RATIGAN: Okay. Nothing further
3 here. Nothing further.

4 CHAIRMAN IGNATIUS: All right. Thank
5 you. Mr. Gearrald.

6 MR. GEARRALD: Thank you. Madam Chair,
7 just to, for clarification, Attorney Brown referred to the
8 exhibits that were premarked as exhibits for
9 identification. My understanding is that these are now
10 full exhibits.

11 CHAIRMAN IGNATIUS: Well, they're still
12 marked for identification. And, at the close of the
13 hearing, we'll take any arguments as to whether any should
14 not be made full exhibits.

15 MR. GEARRALD: Okay. Fine.

16 CHAIRMAN IGNATIUS: Of course, if you
17 have an issue as to a particular exhibit, you might as
18 well raise it early on, because we tend to forget things a
19 day or two later.

20 MR. GEARRALD: I will. Thank you.

21 BY MR. GEARRALD:

22 Q. Mr. Dixon, the presentation of this Settlement does not
23 address the issue of the Commissioners' questions
24 raised in the December 17, 2012 letter, as to whether

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Aquarion has considered tiered block rates that are
2 lower for lower usage and escalate with higher usage.
3 It doesn't address that, correct?

4 A. (Dixon) That is not addressed here, no.

5 MR. TAYLOR: If I may, I don't mean to
6 interrupt Mr. Gearrard, but we had discussed with the
7 parties earlier that, after this panel goes on, and, so, I
8 don't want to interrupt Mr. Gearrard's questioning, but we
9 had discussed that representatives of the Company would
10 address those questions on a panel after this panel. So,
11 I just wanted to make clear that there was the intent to
12 answer that question.

13 CHAIRMAN IGNATIUS: All right. Is that
14 acceptable to everyone to do it that way?

15 MR. GEARRALD: That's fine.

16 CHAIRMAN IGNATIUS: All right. Thank
17 you.

18 BY MR. GEARRALD:

19 Q. So, the answer is "no", it doesn't address that in this
20 context?

21 A. (Dixon) It's not addressed here, no.

22 Q. And, as we've said -- as you've said previously, the
23 return on equity percentage is not resolved via this
24 Settlement, correct?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Dixon) That's also correct.

2 Q. And, that impacts not only the revenue requirement, but
3 also impacts the step increase for WICA, correct?

4 A. (Dixon) Yes, sir.

5 Q. With regard to the percentages of ROE that are being
6 sought, you've said that Exhibit 18 is based on a
7 9.75 percent ROE?

8 A. (Dixon) Yes.

9 Q. And, you've indicated that there is a calculation on
10 the second page of Exhibit 18 as to what each
11 percentage of ROE would result in for the revenue
12 requirement, correct?

13 A. (Dixon) Yes.

14 Q. Each percentage point, as you've explained -- as you've
15 indicated in your testimony, is \$154,214, correct?

16 A. (Dixon) Yes. That's correct.

17 Q. And, the Company in this case is still seeking an
18 increase in return on equity from 9.75 percent to
19 10.25 percent, is that right?

20 A. (Dixon) Yes.

21 Q. And, one of the data requests that the Town of Hampton
22 submitted that you have answered indicates that the
23 increase from 9.75 percent to 10.25 percent would
24 result in a change in revenue of approximately \$77,360,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 isn't that correct?

2 MR. TAYLOR: I would ask if Mr. Gearrald
3 has the data requests?

4 MR. GEARRALD: I do. This is marked as
5 "Exhibit 3" to Mr. Welch's testimony, which has been
6 marked for identification in this matter.

7 CHAIRMAN IGNATIUS: All right.
8 Mr. Welch's testimony looks like it's been premarked as
9 15.

10 MR. GEARRALD: Yes. Thank you.

11 **BY THE WITNESS:**

12 A. (Dixon) Yes, I see the response, but the figures would
13 be different now.

14 BY MR. GEARRALD:

15 Q. Can you calculate what that figure would be, based on
16 the new -- is there a new revenue requirement, that's
17 why that figure has changed?

18 A. (Dixon) Well, this figure depends on what the rate base
19 is, it also depends upon what the equity percentage of
20 the cap. structure is. So, if you go to Page 1 of this
21 illustrative exhibit that we put together, at the very
22 bottom there is a line item that says "RORB", that's
23 "Return on Rate Base", "further revised to reflect
24 9.75 percent ROE from DW 08-098." So, we are taking

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 the ten and a quarter ROE that we proposed, down to
2 9.75, that is 50 basis points. And, you can see here
3 now the impact is "79,472", as opposed to this
4 "77,360".

5 Q. So, the impact you said was -- of the increase that the
6 Company is still seeking is what figure?

7 A. (Dixon) Fifty basis points on ROE is worth \$79,472.

8 Q. Thank you. Mr. Naylor, you have filed your testimony
9 as marked as "Exhibit 9". And, in that testimony, you
10 were -- you have not changed your testimony as a result
11 of this Settlement, correct?

12 A. (Naylor) That's correct.

13 Q. And, in your testimony, you gave a recommendation for a
14 return on equity, correct?

15 A. (Naylor) Yes. We included a number in here more or
16 less as a placeholder. But we did use a particular
17 number, correct.

18 Q. And, that number was "9.25 percent", correct?

19 A. (Naylor) That's correct.

20 Q. And, your testimony indicates that, as one basis for
21 your recommendation of that figure was the impact of
22 WICA, your support for WICA, in your view, was tied to
23 a lower return on equity, correct?

24 A. (Naylor) That's correct.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. And, can you explain the basis for your tying the two
2 together?

3 A. (Naylor) Sure. My testimony, beginning at the bottom
4 of Page 3 and onto Page 4, provides that explanation.
5 And, I believe it's primarily related to the fact that
6 the utility's cash flow is accelerated. They are able
7 to put into service capital improvements much more
8 quickly and begin to earn a return on those capital
9 improvements much more quickly. And, so, we believe
10 that the Company's risk -- associated risk is therefore
11 reduced. And, that this reduction in risk should be
12 reflected in a change in its equity return.

13 MS. BROWN: Chairman Ignatius, if I may
14 interrupt. I just -- I'm not getting a sense of the
15 relevance of Mr. Naylor's testimony to the Partial
16 Settlement. He's on this panel for the Partial
17 Settlement. He will also be available again on another
18 panel. So, I just wanted to flag that for Attorney
19 Gearrauld. Thank you.

20 CHAIRMAN IGNATIUS: Yes. Let's be -- it
21 would help me to know what's anticipated. Will all of you
22 be recalled for other -- at another time to talk about the
23 cost of equity issues?

24 MR. TAYLOR: Mr. Dixon will be recalled.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 And, it's -- I can't speak for Staff, but my understanding
2 is Mr. Naylor will be back.

3 MS. BROWN: Yes. Staff plans to call
4 Mr. Naylor and Mr. Laflamme separately for
5 cross-examination on their testimony.

6 CHAIRMAN IGNATIUS: On the issue of the
7 equity?

8 MS. BROWN: On the non-resolved issues,
9 and that includes cost of equity.

10 CHAIRMAN IGNATIUS: And, Ms. Hollenberg?

11 MS. HOLLENBERG: The OCA has no
12 affirmative witness for the return on equity issue.

13 CHAIRMAN IGNATIUS: All right. Thank
14 you. Then, Mr. Gearrard, I don't know if you need to go
15 into that at this time then.

16 BY MR. GEARRARD:

17 Q. Mr. Naylor, regarding the WICA Program, as the result
18 of this recommendation, the WICA Program, this
19 recommended Settlement, the WICA Program will continue
20 forward on a pilot basis, if this Settlement is
21 approved?

22 A. (Naylor) That's correct.

23 Q. Now, in the course of your testimony, in particular, on
24 Page 2, do you have that in front of you?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Naylor) Yes, I do.

2 Q. Yes. You had some testimony there regarding the
3 original objectives of the WICA Program, correct?

4 A. (Naylor) Yes.

5 Q. And, you comment on Page 2 about what objectives you
6 believe WICA has achieved, and then you comment on what
7 objective of WICA has not been achieved, correct?

8 A. (Naylor) Yes.

9 Q. The objective that has not been achieved is that it has
10 not extended the time between rate cases, correct?

11 A. (Naylor) Correct.

12 Q. Your understanding is that the Company is filing these
13 on an every three year basis, regardless of WICA?

14 A. (Naylor) That appears to be the case, yes.

15 Q. One of the program -- objectives of the WICA Program
16 was the lessening of rate shock to customers, and your
17 testimony indicates that, in Staff's view, the value of
18 the mitigation of rate shock depends to a large degree
19 on the level of rate increase the customer will see
20 once the rate case is concluded, correct?

21 A. (Naylor) Yes. That's correct.

22 Q. All right. So, that objective is still to be reflected
23 in whatever outcome the Commission reaches on the
24 issues still in dispute?

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Naylor) Yes. The evaluation of the WICA, I believe,
2 is -- needs more time, that I think the horizon for
3 evaluating it needs to be longer. It's just very
4 difficult to really get a handle on the outcome after
5 three years. You're looking at objectives, such as,
6 you know, integrity of the distribution system, reduced
7 water loss, acceleration of the infrastructure
8 replacement, the effects on the Company's -- frequency
9 of the Company's rate filings, the level of the rate
10 filings. It's just not that -- it's just not easy to
11 do it. And, there's really not -- I don't think
12 there's enough useful data to evaluate it in three
13 years, and that's why I have advocated for an
14 additional cycle, rate case cycle to look at it.

15 MR. GEARRALD: Thank you. That's all
16 the questions I have.

17 CHAIRMAN IGNATIUS: Thank you.
18 Questions from the Commissioners?

19 MS. HOLLENBERG: May I ask cross?

20 CHAIRMAN IGNATIUS: I'm sorry?

21 MS. HOLLENBERG: I had a couple of cross
22 questions, but --

23 CHAIRMAN IGNATIUS: Well, I thought we
24 had already been through that, in terms of friendly cross,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 the friendly direct to --

2 MS. HOLLENBERG: Okay. I didn't
3 understand that that's what I was supposed to do at that
4 time. Okay.

5 CHAIRMAN IGNATIUS: Well, and I guess I
6 wasn't clear. Is it --

7 MS. HOLLENBERG: Not very many, just a
8 couple.

9 CHAIRMAN IGNATIUS: All right. Go
10 ahead.

11 BY MS. HOLLENBERG:

12 Q. Mr. Naylor, you were asked by Attorney Ratigan about
13 some language in the order approving the revenue
14 requirement increase in the last rate case. Do you
15 recall that?

16 A. (Naylor) Yes, I do.

17 Q. And, would you accept subject to check that the
18 Settlement Agreement did not provide for limiting the
19 revisiting of the allocations among customer classes to
20 the next cost of service study?

21 A. (Naylor) I don't recall that, but I --

22 Q. I can show you the agreement, if you'd like?

23 A. (Naylor) -- I can accept that, based on your
24 representation. That's fine.

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Okay. Okay. And, Mr. Dixon, what is the purpose of a
2 cost of service study?

3 A. (Dixon) The purpose of a cost of service study is to
4 take the overall cost of service and assign that to the
5 particular classes of customer, whether it be
6 residential, commercial, industrial, public fire,
7 private fire.

8 Q. And, the Company proposed that the rate increase or the
9 revenue requirement increase be distributed equally
10 among rate classes, which is what Mr. Naylor supported
11 when he testified a few minutes ago. Do you believe
12 that that proposal of the Company and the rates that
13 would result from that proposal of the Company are
14 cost-based?

15 A. (Dixon) I think it's consistent with the original cost
16 of service study, yes.

17 MS. HOLLENBERG: Thank you. No other
18 questions.

19 CHAIRMAN IGNATIUS: Thank you.

20 Ms. Brown, did you have anything further for these
21 witnesses?

22 MS. BROWN: I just had one redirect by
23 Mr. Naylor and continuing just briefly with this issue
24 of --

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 CHAIRMAN IGNATIUS: Well, we'll get back
2 to that. I was trying to understand, Ms. Hollenberg
3 didn't realize that her first opportunity was to ask
4 questions of people other than her own witness. So, --

5 MS. BROWN: You offered me redirect,
6 right, --

7 CHAIRMAN IGNATIUS: No.

8 MS. BROWN: -- on the issues that were
9 just raised in cross?

10 CHAIRMAN IGNATIUS: No. No. And, I
11 probably wasn't clear. I'm trying to just establish the
12 opportunity to finish the direct, question and
13 cross-examination from those who are not supporting the
14 Settlement, and then questions from the Commissioners. I
15 will then consider whether any redirect is appropriate.

16 MS. BROWN: Sure. I have no cross.

17 CHAIRMAN IGNATIUS: All right.

18 MS. BROWN: Thank you. I mean, friendly
19 redirect.

20 CHAIRMAN IGNATIUS: You know, I'm not
21 sure what you call any of these things. All right.
22 Commissioner Harrington, questions?

23 CMSR. HARRINGTON: Thank you. Just a
24 couple of questions, some of the things from the

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Settlement Agreement. Starting with what I hope is a
2 fairly easy one.

3 BY CMSR. HARRINGTON:

4 Q. On Section 11 of the Settlement Agreement, it talks
5 about this "reciprocal Missed Appointment Fee". And,
6 looking at -- I don't know what -- I don't have all
7 these things numbered. So, it's the direct testimony
8 of someone from Aquarion. This green book, I'm not
9 sure, it's in the front of it, it's in front of H.
10 Hibbard's testimony, appears some miscellaneous changes
11 or charges.

12 CHAIRMAN IGNATIUS: So, that would be
13 part of Exhibit 5, and the second tab, Mr. Hibbard.

14 CMSR. HARRINGTON: Okay. This is
15 Exhibit 5. Okay.

16 BY CMSR. HARRINGTON:

17 Q. In there, on Page 8 of 171, it talks about "Missed
18 Appointment Fee to Customers". It says "A customer who
19 schedules an appointment will be charged a "missed
20 appointment" fee of \$44 if the customer has scheduled
21 an appointment at the customer's premises; (b) the
22 service person arrived during the appointment window
23 given to the customer; (c) the customer is not home
24 when the service person arrives or the service person

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 is otherwise denied access; and (d) the customer did
2 not contact the Company by telephone, in person, or by
3 e-mail, or otherwise in writing in advance of the
4 appointment window." And, this has been modified by
5 Section 11 of the Settlement Agreement, is that the
6 correct section, so those two correlate together?

7 A. (Dixon) Yes. That's correct.

8 Q. Okay. First, it talks about a "window". How big is
9 the window that is given to the customer? Is this a
10 week? A day? Three hours?

11 A. (Dixon) I think we're talking about a four-hour window,
12 but I'd have to check with Mr. McMorran to be sure.

13 Q. Is that established someplace in this or is that to be
14 determined by the Company at a later time?

15 A. (Dixon) When --

16 MR. TAYLOR: I can represent that Mr.
17 McMorran is with us here, and has represented that the
18 window is two hours.

19 CMSR. HARRINGTON: Okay. Thank you.

20 CHAIRMAN IGNATIUS: And, I had misspoke.
21 This is in the first -- he's reading from the tariff, not
22 from Mr. Hibbard's testimony, that Commissioner Harrington
23 was referring to.

24 BY CMSR. HARRINGTON:

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Okay. So, if the person -- so, what you're saying is
2 that window is within two hours. And, here it says the
3 "reciprocal such that the customer is compensated in a
4 amount equal to the Missed Appointment fee if the
5 Company fails to appear for a scheduled service call."
6 Can you define what "fails to appear" means then? If
7 the window is 8:00 to 10:00, if the Company fails to
8 appear by 10:02, does that mean they have to pay that
9 fee or is it -- what's the "fail to appear" time?

10 A. (Dixon) It is related to that same two-hour window,
11 yes.

12 Q. So, it's within the two hours or the late fee gets
13 charged to the Company?

14 A. (Dixon) It's also if we haven't notified the customer
15 in advance. During the course of data requests, we
16 provided some amended language that mirrors some
17 language we have in some our other company tariffs that
18 clarified that a little bit more.

19 Q. Okay. And, moving back to -- on the Settlement
20 Agreement, whoever's most appropriate can answer this,
21 under the section of "Revenue Requirement", if you go
22 down, there's a bunch of statements there based on
23 adjustments made by Jayson Laflamme's testimony, and
24 there's a whole mess of additional numbers through

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 here, and it appears to get us to Exhibit 18, where it
2 shows a number of, on Line 29, of "Adjusted Filing
3 Revenue Requirement \$1,077,924". Is that the number
4 that incorporates Items 1 through 5 of the Settlement
5 Agreement?

6 A. (Dixon) Items 1 through 5 are reflected below Row 29.
7 So, Row 29 is the starting point.

8 Q. Okay.

9 A. (Dixon) And, then, the Settlement items, for instance,
10 off to the right, there is a letter "C", --

11 Q. Uh-huh.

12 A. (Dixon) -- with a number of "14,524".

13 Q. Uh-huh.

14 A. (Dixon) That represents that same "14,525" in Item
15 Number 2. So, the Settlement items are below the
16 "1,077,924".

17 Q. Okay. So, the five items under "Revenue Requirement",
18 the first five items of the Settlement Agreement, are
19 the adjustments that are made in Lines 30 to 45 of
20 Exhibit 18?

21 A. (Dixon) It actually stops at 41.

22 Q. Forty-one, okay.

23 A. (Dixon) Because Item 44 is the impact of the ROE, which
24 hasn't been established with the Settlement.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Okay. And, that takes me to Exhibit 10, this is
2 probably best answered by Mr. Naylor, I would guess.
3 And, even though this isn't your testimony, it's the
4 testimony of Jayson Laflamme, I assume you're familiar
5 with it?

6 A. (Naylor) Yes.

7 Q. Okay. On Page 3 of Mr. Laflamme's testimony, which is
8 -- I don't know if it's 9 or 10, it's not marked here.
9 It would be --

10 CHAIRMAN IGNATIUS: His is 10.

11 BY CMSR. HARRINGTON:

12 Q. -- 10. He lists on Line -- starting Line 13 to 17, he
13 said, in response to a question about the Company's
14 increasing revenue, he says "As a result, the increase
15 in water revenues now being sought by Aquarion is
16 \$1,077,924." Which seems to match Line 29 of
17 Exhibit 18, is that correct?

18 A. (Naylor) I'm sorry. Could you give me the reference in
19 his testimony again?

20 Q. Sure. It's Page 3, Lines 13 through 17, in response to
21 a question on Line 11. And, basically, on Lines 15 and
22 16, he says "As a result, the increase in water
23 revenues now being sought by revenue" -- "by Aquarion
24 is \$1,077,924."

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Naylor) Yes. That's correct.

2 Q. And, that corresponds to Line 29 of Exhibit 18?

3 A. (Naylor) Yes.

4 Q. Okay. Then, he goes on, further on that same page,
5 "Does Staff agree with the adjustments reflected in the
6 Company's response...?" And, he says "Yes. However,
7 in addition to the modifications proposed" -- "to the
8 proposed revenue requirement made by the Company in
9 response to Staff 3-11, Staff is proposing further
10 adjustments." And, we get over to the next page, on
11 Page 4, and it says on -- in response to a question, it
12 says "Please summarize Staff's recommendation regarding
13 a permanent rate revenue requirement for Aquarion..."
14 He says "As indicated on Schedule 1, Staff is
15 recommending an annual operating revenue of 6,944,483.
16 This represents an increase of 857,810, or
17 14.09 percent, over the Company's proforma test year."
18 And, is this -- is that the difference between the
19 1,000 -- I'm trying to figure out why the two numbers
20 are different. Because it appears that this number,
21 Line 29, comes in before the adjust -- before the ROE
22 is calculated in. So, am I just not mixing apples with
23 oranges here or why was there an additional Staff
24 recommendation, or, in the Settlement Agreement, is the

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Staff going back to the original number proposed by the
2 Company?

3 A. (Naylor) Yes. I think I can provide you with an
4 answer, but I would certainly invite Mr. Dixon to also
5 jump in if I misstate it, because it requires some
6 recollection of how the things sort of sequenced here.
7 When this testimony, testimony of Staff and the other
8 parties was provided back in January, that, of course,
9 began a period of discovery on the part of the Company
10 with respect to the testimonies that were filed, and
11 some technical sessions and other discussions among the
12 parties. And, I believe that, in order to reach the
13 agreement that we are presenting today, with respect to
14 all of the elements of the revenue requirement, except
15 for the equity return, we used the -- we used the
16 attachments to the data request that's referenced on
17 Page 3 of Mr. Laflamme's testimony, Staff 3-11. You
18 see that referenced in Mr. Laflamme's testimony on
19 Page 3, Line 17. We started with those schedules, we
20 started with those numbers, because I believe there
21 were a number of issues that were raised in discovery,
22 and, through discussions, that the Company more or less
23 modified its rate request through various things that
24 happened, whether I don't know if it was particularly

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 mathematical errors or things that were pointed out,
2 maybe there were some things from the audit that
3 affected the request. So, that became the starting
4 point, those schedules became the starting point.

5 Now, from that particular point, when
6 that -- the Company had provided Staff with that
7 response, Mr. Laflamme had also examined other areas
8 through discovery and so forth and had additional
9 issues that he wanted to raise. And, those issues
10 resulted in additional recommendations from him for
11 modification of the Company's request, and, therefore,
12 that became his recommendation for the revenue
13 requirement. Also, with the difference in his revenue
14 requirement at that time, of course, is based on a cost
15 of capital, which is to be determined now. So, that's
16 why, ultimately, this "1,077,924", on Line 29 of
17 Exhibit 18, is shown here on Page 3 of the testimony,
18 but then he goes on beyond that. So, it's really two
19 different points in time.

20 Q. So, is it safe to say that then the -- starting with
21 the 1,077,924, which was a change or modification to
22 the Company's original request, that the items listed
23 in Mr. Laflamme's testimony on Page 4, going from Lines
24 9 through 17, they would represent those adjustments

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 that were on Exhibit 18, from Lines 31 through, I guess
2 in this case, including the ROE, through 44?

3 A. (Naylor) Actually, I don't remember now whether or not,
4 and Mr. Laflamme is going to be on the stand, he can
5 tell you, I don't recall exactly how we got to these
6 particular numbers that are on Exhibit 18. I know
7 these are issues that we had identified in our
8 discussions subsequent to the Staff testimony and the
9 testimony of the other parties. But I think some of
10 them are from Mr. Laflamme's testimony, based on his
11 recommendations. I know, in respect to the
12 Right-of-Way tax, there was an issue that was raised.

13 I don't know if Mr. Dixon has any
14 recollection exactly of how we got from the -- from
15 Mr. Laflamme's testimony to these Settlement
16 adjustments?

17 A. (Dixon) No. Some of them, as you mentioned, the ROW
18 tax, as well as, I believe, the property tax and the
19 adjustments based on updating rate base, were all
20 specifically in Mr. Laflamme's testimony. But I don't
21 think there's a one-for-one correlation on all of these
22 items.

23 Q. Okay. I guess what I'm trying to get at is that, you
24 know, it appears the Company made a original request

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 for an increase, based on discovery and questions from
2 the Staff, they lowered that to the 1,077,924. And,
3 then, Mr. Laflamme went on to say that that should be
4 lowered even more, to 857,810. Now, does the 857,810
5 that appears on Line 10 of his testimony, does that
6 incorporate a specific ROE?

7 A. (Naylor) Yes, it does.

8 Q. Okay.

9 A. (Naylor) And, that was -- I referenced that, and
10 Mr. Gearrald had asked me about it, in my testimony, I
11 had indicated that Staff was using 9.25 percent as a
12 placeholder for an equity return. So, Mr. Laflamme
13 incorporated that into his numbers.

14 Q. So, that accounts for part of the difference between
15 the two numbers then?

16 A. (Naylor) Yes, it does.

17 Q. And, then, the other part is the adjustments that are
18 addressed in the Settlement Agreement to do with taxes
19 and other things?

20 A. (Naylor) Correct.

21 Q. Okay. All right. Well, that clears a lot of that.
22 Thank you.

23 CHAIRMAN IGNATIUS: Let me ask, we are
24 not -- we don't know how many -- how many acts there are

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 in this play. So, are there going to be witnesses who
2 will be testifying to use of water, unaccounted for water
3 and that sort of thing, or is this the panel where it's
4 appropriate to raise those questions?

5 MR. TAYLOR: I would -- I mean, we had
6 not anticipated that there would be witnesses giving
7 testimony on those issues. This Settlement resolves
8 issues among the Staff, the OCA, and the Company. So, and
9 the Company does intend to put witnesses on following
10 this. We had expected that the scope of this hearing
11 would be return on equity. But, to the extent that there
12 are going to be questions on unaccounted for water and
13 things of that nature, those are issues that were raised
14 by the OCA, but that have been resolved by this
15 Settlement.

16 CHAIRMAN IGNATIUS: Right. You have to
17 keep in mind, though, that you have a proposal that a
18 settlement will resolve those issues. But we have a duty
19 to decide if we think the Settlement does appropriately
20 deal with the matters. And, so, we may have some
21 questions, even though they're not things you were
22 expecting to go into.

23 MR. TAYLOR: Of course. And, I
24 apologize, I misunderstood. Obviously, we would expect

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 that the Commission would have questions of our witnesses,
2 and we will make witnesses available for the Commission to
3 answer any of those questions. We don't have to do that
4 on the Settlement panel, but we will have -- Mr. Dixon
5 will be brought back to answer questions.

6 CHAIRMAN IGNATIUS: So, if there are
7 questions that relate to water usage, is Mr. Hibbard the
8 right person to be asking those questions?

9 MR. TAYLOR: Mr. Hibbard isn't here
10 today. Mr. Hibbard is no longer with the Company. But we
11 will, we have witnesses here today who can speak to those
12 issues, yes.

13 CHAIRMAN IGNATIUS: All right. I'll
14 tell you my concern is that, if this is presented as
15 resolving all of the issues that the OCA and the Staff
16 raised on these issues, and we may have questions about
17 how is it that this proposed Settlement does, in fact,
18 resolve those issues and to explore them a little bit
19 further. So, if it can be done as part of this panel,
20 that's more efficient, I guess it depends on the knowledge
21 of Mr. Dixon on some of these issues.

22 MR. TAYLOR: I think, for efficiency --
23 oh, I'm sorry.

24 MS. BROWN: I just also want to chime

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 in, these issues are raised in Staff's testimony, and
2 that's why Staff is going to be available as a panel to
3 talk about them further. So that, if the Commissioners do
4 have questions, or if there are other questions on cross,
5 that they can be further explored. Also, I believe
6 Mr. Taylor -- Attorney Taylor is going to talk about that
7 Carl McMorran is going to be available as a witness, too.

8 MR. TAYLOR: We will put Carl McMorran,
9 John Walsh, and Troy Dixon on as a panel of witnesses to
10 answer the Commission's questions. They're available here
11 and will be available to answer questions.

12 CHAIRMAN IGNATIUS: All right. I'm
13 really not trying to have you put on the entire case that
14 may not be necessary given the proposed Settlement. But
15 maybe we ought to explore what we can, to the extent of
16 the knowledge of the witnesses while we're in the
17 Settlement panel, anything related to the matters that OCA
18 and Staff raised.

19 MS. BROWN: Would it be more efficient
20 if Staff added Mr. Laflamme to the panel, to talk about
21 these revenue requirement adjustments that were appearing
22 on Exhibit 18?

23 CHAIRMAN IGNATIUS: I think we'll wait
24 and see. I'm not sure that is the issue yet.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 MS. BROWN: Okay.

2 CHAIRMAN IGNATIUS: But, to the extent
3 somebody is not able to answer, I'm really looking at you,
4 Mr. Dixon, because there are multiple Company witnesses,
5 don't, you know, don't feel you have to make up an answer.
6 But, if you do know and you can respond, or if others on
7 the panel are able to respond, that would be fine. Let's
8 see how far we can get with that. Mr. Gearrald.

9 MR. GEARRALD: May I just say, madam
10 Chairman, my questions would have been much broader if
11 we're talking beyond this Settlement. My purpose was to
12 clarify, and Commissioner Harrington I believe raised it,
13 that, if the return on equity figure turns out to be, for
14 instance, 9.25 percent that Staff is proposing, then the
15 increase in revenue requirement would only be \$857,810.
16 That possibility is not foreclosed by this Settlement.
17 That's the point of the questions. And, that Mr. Naylor
18 would be getting on later to talk about that. There are
19 -- just so the Commission knows, we have a return on
20 equity expert, David Parcell, who actually provided
21 initial testimony on that question, rebuttal testimony by
22 Pauline Ahern on behalf of the Company, it's rebuttal,
23 even though it's their burden. And, then, we have
24 surrebuttal testimony of Mr. Parcell that's already in the

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 record. And, so, that's the procedural cast to that
2 issue. Staff put out the figure to show what it would
3 correspond to at 9.25 percent, but that wouldn't be
4 foreclosed by the Settlement. My understanding is this
5 particular panel is solely talking about the Settlement,
6 what's in it and what's not in it.

7 CHAIRMAN IGNATIUS: Right. And, so, I
8 think we're all clear that any ROE issues will be taken up
9 with other witnesses, and some of the same witnesses
10 coming back on that issue, and don't need to be done with
11 this panel.

12 MR. GEARRALD: Thank you.

13 CHAIRMAN IGNATIUS: The in-between issue
14 is "what do we do with some of the issues that are raised
15 by the OCA and the Staff, particularly about water
16 consumption?" We just want to make sure that we have an
17 opportunity to question about that. And, if I've
18 inadvertently foreclosed you from that opportunity, we'll
19 give you that opportunity as well. Mr. Ratigan.

20 MR. RATIGAN: I would suggest that, if
21 questions arise to the Commissioners, the answers, if they
22 don't lie with the panel, they lie with someone sitting
23 here, is that the panelist defer to the person who can
24 answer the question, so we can do it in a way -- I mean,

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1 the human mind tends to remember the things that it's on
2 and then forget them. So, I think it might be more
3 efficient to take that approach.

4 CMSR. HARRINGTON: Madam Chairman, maybe
5 I can clarify what my concern was. In the Settlement
6 Agreement, we have a, basically, 1 through 5, is a list of
7 agreements having to do with the revenue requirement.
8 Now, based on that, there's going to be a figure, X is the
9 revenue requirement, and then that's going to be adjusted
10 based on the return on equity to get a final figure. The
11 return on equity I realize is not being debated now. But
12 the basis of that figure X is what I have some questions
13 on. How did that come about, besides the specific ones
14 that are addressed in the Settlement Agreement, where
15 there was changes to this tax and changes to something
16 else? And, that's what I guess I'm looking to. And, I
17 don't know if this is the appropriate time to ask that, or
18 do we get into that, say, tomorrow?

19 CHAIRMAN IGNATIUS: Why don't you go
20 ahead and start with some questions. Maybe we ought to
21 swear others who have filed testimony, let's do it. And,
22 if you need to raise your hands and help out, let's do it
23 at once. So, Mr. Laflamme, the Company witnesses, I don't
24 know think we need Mr. Parcell, we're not getting into the

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1 cost of capital yet, but if the court reporter will swear
2 the others please.

3 MR. PATNAUDE: Who?

4 CHAIRMAN IGNATIUS: Mr. Laflamme,
5 Company people, other than the return on equity witnesses.
6 Right. So, why don't you stand up and state your name.

7 (Whereupon **Jayson Laflamme, Carl**
8 **McMorran**, and **John Walsh** were duly sworn
9 by the Court Reporter.)

10 **JAYSON LAFLAMME, SWORN**

11 **CARL McMORRAN, SWORN**

12 **JOHN WALSH, SWORN**

13 CHAIRMAN IGNATIUS: Yes. And, for the
14 court reporter's sake, let's just give a round again of
15 names.

16 WITNESS WALSH: John Walsh.

17 WITNESS McMORRAN: Carl McMorran.

18 WITNESS LAFLAMME: Jayson Laflamme.

19 CHAIRMAN IGNATIUS: All right. Thank
20 you.

21 CMSR. HARRINGTON: Okay. We'll try this
22 and see how it works.

23 BY CMSR. HARRINGTON:

24 Q. In Exhibit 5C, which is Mr. Hibbard's testimony, in the

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 green book, on Page 4, there's a lot of different
2 issues here about increasing costs. And, one I just
3 want to look at was on Line -- question on Line 20 and
4 answer on Line 22, "What are the primary drivers behind
5 the Company's need for rate relief?" And, on Line 22,
6 it says one of those is "reduction in revenues relative
7 to those assumed in the Company's last rate case".
8 And, I'm going to make an assumption here, based on
9 what we heard in the public hearing, and based on some
10 of the other things in testimony, is it correct to say
11 that a good -- one of the largest sources of reduction
12 in revenues was simply you sold less water than you
13 planned on?

14 A. (Dixon) That is correct. Customer usage is down,
15 compared to the levels that were set in that last rate
16 case.

17 Q. And, again, in that same testimony, let me see, I don't
18 know if we're switching between different people. On
19 Page 13 of Mr. McMorran's testimony, which I believe is
20 Exhibit 5B, one of the things that he discusses at the
21 top of the page, in Sections I through V, is "the
22 Company participated in a DES leak detection program",
23 and they saved \$10,000 through ARRA funding. It says
24 "DES-hired contractor performed the leak

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 survey...finding 17 leaks." Can someone explain how
2 significant these leaks were? And, were the leaks, in
3 fact, repaired? And, how much water was saved by those
4 17 leaks that were found?

5 A. (Dixon) I think Mr. McMorran can respond to that one.

6 WITNESS McMORRAN: The leaks were all
7 repaired. I don't have the --

8 (Court reporter interruption.)

9 WITNESS McMORRAN: Yes. The leaks were
10 all repaired, possibly soon after they were discovered.
11 But I don't have the volume figure available.

12 CMSR. HARRINGTON: Was it significant?
13 I mean, are we talking 20 gallons a day or are we talking
14 more of a thousand gallons a day? Can you give us a
15 ballpark figure for that?

16 WITNESS McMORRAN: Not off -- not from
17 memory, no.

18 CMSR. HARRINGTON: Okay. Well, maybe
19 that's something you could obtain that information, if
20 it's possible.

21 WITNESS McMORRAN: Yes.

22 CHAIRMAN IGNATIUS: All right. Then,
23 why don't we reserve a Record Request Number 1 for that
24 information.

1 **(Record Request Number 1 reserved.)**

2 BY CMSR. HARRINGTON:

3 Q. Okay. Moving into, I guess we're going backwards
4 actually in the numbering, 5A, which is Mr. Dixon's
5 testimony, same green book. On Page 6, there's a
6 discussion there about actual consumption, this is
7 starting on Line 14, "Actual consumption, however, has
8 consistently been below that level", which is what the
9 assumed level of customer use was, "and is generally
10 declining. This is consistent with an overall trend of
11 reduced consumption per customer that has been
12 experienced by the Company's other affiliates as well
13 as across the nation." And, there's a graph on the
14 bottom of the page that shows, though it's not
15 continuously down, it is a little bit of sawtooth, that
16 the trend of the average usage is definitely going
17 down. Can someone from the Company comment as to what
18 they believe the cause of this continuing decrease in
19 per customer usage is?

20 A. (Dixon) We think that the largest part of this trend is
21 attributable to more efficient appliances, as customers
22 are changing those, you know, toilets and showerheads
23 out that use far less water, we're continuing to see
24 that over time. A chart similar to this is one, we see

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 that same trend in our Massachusetts company and our
2 Connecticut company as well, and it's been a steady
3 trend for quite some time now.

4 Q. And, now, let's just confine ourselves then to that
5 portion of the reduction. Is that market, basically,
6 market influence being saturated to the point, I mean,
7 have we reached the point where low-flow showerheads,
8 low-consumption washing machines and toilets are
9 basically widespread enough so that their future impact
10 is going to be somewhat limited or do you think there
11 is still a lot more to go as far as reductions?

12 A. (Dixon) My feel is that, I sort of take us back a step,
13 too, for where we see the biggest declines coming in,
14 in 2008 and 2009, those were subsequent to our last
15 rate filing. We believe there's a significant amount
16 of economy-driven conservation that's plugged in there
17 as well. We think that the regular declines from the
18 appliances and fixtures and whatnot is at a slower,
19 steadier rate than what we saw pretty much right after
20 we came out of this last rate case.

21 I looked at some 2012 data, in terms of
22 -- a lot of times what I'll do is I'll look at what we
23 call our "baseload data", which is our -- sort of our
24 winter consumption, and that's a better indicator of

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 what things are doing over time, because you don't have
2 the hot summers that are sort of skewing the data.
3 And, we're still seeing that slight decline on a
4 going-forward basis. Not as significant as what we saw
5 in 2008 and '09, but it's still there.

6 Q. Okay. So, I guess what you're saying is then, there's
7 all this efficiency that's causing the use of less
8 water, but there's also some reaction to increased
9 prices. So, one would assume that the rate increase
10 that you're requesting, there would also be a continued
11 reaction and there would be more reduction in usage due
12 to that?

13 A. (Dixon) I wouldn't say that the 2008 and 2009
14 reductions were as a result of "pricing". Those were
15 just the economy in general at that point in time.
16 Because the rates didn't go into effect until after
17 this drop-off really happened. So, I generally don't
18 see big responses to price increases. It's more a
19 combination of, like I said, those fixtures, is really
20 what's driving the long-term trend.

21 Q. And, not to get tricky, you may not see them, but we
22 certainly heard about them in the public hearing.

23 A. (Dixon) Yes.

24 Q. There were many, many people who said "I'm using less

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 water. And, the result is my rates go up, so my bills
2 stay the same. And, so, really, we're getting nowhere
3 by consuming less."

4 A. (Dixon) Yes. I mean, I hear people saying that as
5 well. And, what I try to think of, in my own mind, as
6 I'm trying to explain these things and looking at the
7 numbers is, that conservation, I think we all agree, is
8 a great thing. It does, all other things being equal,
9 cost of providing service with conservation goes down.
10 People use less water, we're using less electricity,
11 we're using less chemicals to treat the water. But,
12 even in a longer-term scenario, in ten years, I may not
13 be spending a million dollars to put a new well into
14 service, when, you know, absent conservation, I would
15 be. So, I think conservation will drive lower cost to
16 customers in the short-term and in the long term. But
17 you have that space between rate cases, because
18 80 percent of our costs are fixed, but 80 percent of
19 our bill is variable. So, our cost is going down
20 slowly, but, a customer uses less water and they see a
21 significant drop-off. That's not consistent with our
22 drop-off in cost of service. So, every rate case sort
23 of levelizes things a little bit. There are options
24 there that we've considered. You know, one being we

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 could, you know, raise the fixed portion of a customer
2 bill, but that flies in the face of conservation.

3 So, I think, in the long term, you know,
4 we need to do a little bit better job of, you know, our
5 messaging, in terms of how we present this to our
6 customers, that there are benefits, short-term and
7 long-term. But I think the point is, it is a positive
8 thing, costs do go down over time. And, you have to
9 think of those, you know, sort of the avoided costs in
10 the future as well.

11 Q. But I hope you certainly understand, from a customer's
12 point of view, if they go out and spend whatever money
13 to buy a more efficient toilet with less flush, and it
14 turns out, yes, it doesn't take as much water, but my
15 usage of -- per unit usage of water has gone up, so, in
16 the long run, I didn't save anything. And, you know,
17 that's --

18 A. (Dixon) It's not as dramatic of a savings as we'd like.
19 Because I look at it from a perspective that, three
20 years ago I had a bill of \$400 a year for my water
21 service. I buy some efficient appliances, and I'm able
22 to get my bill down to \$360 a year by saving some
23 water. Here I am three years later, in the rate
24 setting process, and, again, all other things being

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 equal, we're going to raise that back up from 360 to
2 390. It's not the \$400 it was, but it's not the 360
3 they were getting before. So, I hear the message. We
4 need to do a little bit better job of our sort of
5 education and our messaging as a company.

6 Q. Okay. I'm just trying to get at this whole thing with
7 the -- what seems like the demand is going to be
8 decreasing, you're going to see some continuation of
9 that through the more efficient appliances, as rates go
10 up there may be more conservation to some extent. You
11 repaired 17 leaks, which I'm going to assume were the
12 worst leaks, and that's why they were selected, and not
13 the insignificant or trivial ones. And, then, I look
14 on Page 8 of Mr. McMorran's testimony, and he talked
15 about a project in the middle of the page, the "Mill
16 Road Booster Pump Station", and the existing pump was
17 250 gallons a minute, and it's being replaced with a
18 500 gallons a minute pump. Can someone explain, why
19 did you need to double the capacity of that particular
20 pump, if your demand is actually going down?

21 WITNESS McMORRAN: The larger pump was
22 largely put in because we doubled the size of the tank
23 that it draws from. And, basically, that just transfers
24 water from the tank out into the system. So, it improves

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 the ability to get water out to the customers out of
2 storage more effectively.

3 CMSR. HARRINGTON: Even though -- I'm
4 saying, I guess my point would be, with the pump that was
5 half the size, you were able -- not able to deliver water?
6 There was a problem that you're fixing with this or you're
7 just making the system better?

8 WITNESS McMORRAN: Well, the original
9 tank was a lot smaller, so there was less water there to
10 draw from to begin with. The original pump was also
11 basically obsolete, it has passed its service life. So,
12 when we replaced it, we put a bigger one in, which allows
13 us to get more water out of the tank in the short term
14 when we need it.

15 CMSR. HARRINGTON: Okay. And, on Page 6
16 of Mr. Hibbard's testimony, in the middle of the page,
17 starting on Line 12, it says "Capital dollars expended on
18 supply have helped to ensure adequacy supply, improve
19 water supply reliability, and increase the Company's
20 ability to meet peak day demands." And, this would all
21 seem like prudent actions to take, if you were looking at
22 at least of continuing your same amount of sales, and more
23 than likely having them increase over time, and that you
24 were preparing for these increases in sales. But, in

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 fact, it seems like your sales are going down, your leaks
2 are going down, your water supply, therefore, should be in
3 pretty good shape. Have you had significant problems with
4 ensuring adequacy of supply and water supply reliability?
5 And, then, maybe you can address what's happening with the
6 Company's peak as well.

7 WITNESS McMORRAN: Well, our average day
8 over the course of the year is only two and a half million
9 gallons. The peak day, if it's Fourth of July weekend,
10 and it's really hot, a lot of people come, we can -- we've
11 seen demands over 5 MGD. So, that ability to meet that
12 demand of our pump capacity and storage is a little bit of
13 a different animal than just meeting our year-round
14 average day.

15 CMSR. HARRINGTON: Okay. And, just on
16 the peak, I mean, you mentioned over five. I thought I
17 read that the peak was 7-23-11, and it was
18 4.9 million gallons a day. Is that -- was there a later
19 peak after that date? Maybe that was just -- that was a
20 historical marker or something?

21 WITNESS McMORRAN: Oh, in July of 2011?

22 CMSR. HARRINGTON: July 23rd, 2011, a
23 peak of 4.9 million gallons.

24 WITNESS McMORRAN: For 2011, that

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 probably was the peak day.

2 CMSR. HARRINGTON: Okay. And, there was
3 also in here a discussion of the supply being
4 5.24 million gallons a day. Is that before or after the
5 capital expenditures that you're talking that were
6 discussed on Page 6, to improve adequacy of supply and
7 improve water quality and reliability, and increase the
8 Company's ability to meet peak day demands?

9 WITNESS McMORRAN: That's our current
10 pump rate, if all the wells are at their optimal
11 production capacity.

12 CMSR. HARRINGTON: And, what's the
13 normal supply reserve that you would have in a water
14 company, if you're -- if you have -- what I'm trying to
15 get at is, if your peak is X amount, how much above that
16 is considered a good utility practice to have, to make
17 sure you can always meet the peak, when maybe something in
18 the system isn't working to its optimum? Ten percent?
19 Twenty percent?

20 WITNESS McMORRAN: Well, we have system
21 storage. And, our system, if our tanks are all full,
22 we've got about two and three-quarter million gallons. In
23 storage, that fluctuates. Part of that is reserved for
24 fire flows, part of it is just to maintain pressure.

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 John, maybe you can speak on what the
2 general rule of thumb is. But, you know, 10 to 20 percent
3 sounds like a good working number.

4 WITNESS WALSH: Typically, we look at
5 having a 10 to 15 percent margin of safety over your
6 maximum day demand. Another way that folks look at it is
7 a criteria that says you should be able to meet your
8 maximum day demand with your largest source of supply off
9 line. So, in this case, the largest well out of service
10 for some reason.

11 CMSR. HARRINGTON: Okay. But that would
12 be, when you figure that loss of one contingency there,
13 does that include that the tanks are full, your storage
14 tanks? Or, is that with loss of one well? And, how much
15 in the storage tanks?

16 WITNESS WALSH: The storage tanks
17 typically don't figure into that calculation, because
18 prudent design would call for you not to rely on the tanks
19 to meet maximum day demand. So that, if you have a string
20 of days that are all equal maximum day, you don't see your
21 tanks declining each day through those days. So,
22 typically, you rely simply on the sources of supply to
23 meet demand.

24 CMSR. HARRINGTON: So, getting back to

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 what I was originally trying to get at with this question,
2 the capital dollars expenditure, it would appear that
3 these things, the "adequacy of supply, improve water
4 supply reliability, and increase the Company's ability to
5 meet the peak day demands", would all be indicative of a
6 company that was looking at increased demand in the
7 future. Yet, it appears you're looking at demand going
8 down. So, are all of these things necessary? Are you --
9 have you experienced problems with the existing demand, of
10 your inability to meet adequacy of supply and supply
11 reliability or inability to meet the Company's peak day
12 demands, that you need to improve the system to meet it,
13 under the existing and probably decreasing load in the
14 future or decreasing demand in the future?

15 WITNESS McMORRAN: Well, a big part of
16 that is just keeping our existing wells in optimum
17 operating condition to meet that peak demand. The same
18 thing we other facilities, to make sure the tanks and the
19 boosters are all working in reliable condition, in the
20 event or when the peak days are.

21 CMSR. HARRINGTON: Okay. Well, maybe we
22 can make this a little more direct what I'm trying to get
23 at then. If you look back to that graph that shows the
24 continuing drop-off over the last five or six years here

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 of demand for water, what has the Company been doing over
2 that period of time or what strategy has been developed as
3 a result of that to deal with your new situation, which is
4 that over time it appears that the amount of water you
5 sell is going to continue to go down?

6 WITNESS McMORRAN: Go ahead.

7 WITNESS WALSH: So, there's one critical
8 thing to remember, and Carl had mentioned it, which is the
9 maximum, although the average day demand, the consumption
10 numbers you're looking at may be declining, maximum day is
11 impacted by the summer conditions, if it's hot and dry.
12 So, although our average day could be going down, our
13 maximum day demand is probably going to stay, I just don't
14 know the history, but it likely will stay where it's at,
15 because of irrigation demand. And, we need to design and
16 maintain the system to meet that maximum day.

17 In terms of what we're doing, related to
18 that decline, I know, historically, the system has had
19 deficits in supply, to the extent that there was a
20 moratorium in place in years past. And, so, the Company
21 was -- had an effort in place to find a new source of
22 supply. And, we have backed off on looking for and
23 developing new sources of supply, because we recognize
24 that we may not need those in the near future.

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 CMSR. HARRINGTON: Okay. And, then, as
2 far as I understand that, you know, you're driven by peak
3 and not average, and especially in your case, there's a
4 huge difference because of your much smaller winter
5 population. But I'm assuming that you have projected
6 calculations out to, say, five years from now, or maybe
7 even longer, what you estimate the peak demand is going to
8 be. So, if, in 2018, you have some working estimate of
9 the peak demand, so that you can plan your system around
10 that, and I'm not hearing a definite that that's the case.
11 So, could you address that? Do you have that?

12 WITNESS McMORRAN: No, we've not
13 performed any kind of a formal projection. There was one
14 done a couple of years ago by Tata & Howard, a look at
15 historical trends. But it had a very steep rising
16 projection for both our average day and our max day,
17 which, in the subsequent years, has not been what we've
18 actually seen. So, it's difficult to predict what the
19 weather is going to be like, when the new services come
20 in, or other changes of how the consumption -- our
21 declining consumption per capita may change things. So,
22 we pretty much look at what our current system can
23 deliver, compare it to what our recent history has been,
24 and then make a judgment on whether we've got enough safe

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 margin there or not.

2 CMSR. HARRINGTON: Well, just I find
3 that quite troubling, because it's not as if you can, you
4 know, go to the water supply store and buy a hunk of extra
5 water supply to put in your system next week. Most of
6 these changes you would have to make to let's just say
7 increasing peak demand are going to be something that's
8 fairly time-consuming to plan and install. And, the fact
9 that you can't tell me that you have at least an estimate
10 going forward of what your peak demand is going to be
11 tells me how are you planning to maintain your system in
12 the future, if you haven't at least attempted that? I
13 realize there's a lot of variables there. You know,
14 temperature can affect things, and weather and all this
15 other stuff. But, in order to move forward with a good
16 planning process, how can you not have some projections of
17 peak demand going forward?

18 WITNESS WALSH: Can I weigh in?

19 CHAIRMAN IGNATIUS: Yes.

20 CMSR. HARRINGTON: Absolutely.

21 WITNESS WALSH: As Carl was indicating,
22 that evaluation was done a couple of years ago by an
23 engineering firm, Tata & Howard. And, as Carl indicated,
24 the demands have not increased to the extent that they

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 have projected. So, I do think it's proper at this time
2 to redo that evaluation, because we don't want to rely on
3 results from a study that look like they -- it wasn't a
4 good prediction of the future. So, I do believe it's time
5 to reevaluate that issue.

6 CMSR. HARRINGTON: I would hope that
7 would be something that is not only done as a one-time
8 thing, but it be a constant reevaluating. I mean, we get
9 the weather predictions wrong quite often, but we don't
10 stop making predictions, because, overall, it gives us a
11 better idea of what's going to happen than not having
12 those predictions. And, I think, as part of your planning
13 process, you really need to incorporate this, looking
14 ahead one year, two years, three, whatever you think your
15 planning horizon needs to be, which is probably out
16 somewhere three to five years, and then continually update
17 that projection and make your plans changed accordingly.

18 Okay. And, that's all the questions I
19 had at this time.

20 CHAIRMAN IGNATIUS: All right.
21 Commissioner Scott, any questions?

22 CMSR. SCOTT: Thank you.

23 BY CMSR. SCOTT:

24 Q. Since we're on the water use topic, maybe I'll -- we

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 can finish this hopefully. When you talked about
2 estimating peak demand, was fire protection part of
3 that? I mean, do you factor in a major fire, one major
4 fire, on top of --

5 WITNESS McMORRAN: Yes.

6 CMSR. SCOTT: And, God, hope this
7 doesn't happen, is your worse usage day, you add a major
8 fire, etcetera?

9 WITNESS McMORRAN: Yes.

10 CMSR. SCOTT: And, just one or one and a
11 -- a big fire and a small fire? Or, how do you do that?

12 WITNESS McMORRAN: Well, it's really
13 factored into our storage calculations. We figure we can
14 provide 3,000 gallons a minute for a period of three hours
15 out of our tanks as a minimum, regardless of where it is
16 or how many places it may be.

17 CMSR. SCOTT: Okay. And, so, if I
18 understood just the testimony just given or question
19 responses is, to paraphrase, given the average usage is
20 going down as a clear trend, you have that on your Page 6
21 of Mr. Dixon's, that chart there. But what I think I
22 heard was, however, you're not sure that peak demand has
23 trended the same way or even changed. To the extent that
24 effectively you have to build your system to peak demand,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 when you look at demand reduction programs, is peak
2 something you were targeting, since we now have a greater
3 gap between the peak and what's actually happening on
4 average?

5 WITNESS WALSH: In terms of some
6 mechanism for reducing the peak demands?

7 CMSR. SCOTT: Correct.

8 WITNESS WALSH: We have not, to my
9 knowledge, looked into anything like that.

10 CMSR. SCOTT: And, my question really
11 is, and would that, if you were to be able to reduce that
12 peak, would you not be able to perhaps have some savings
13 there, because you don't have to have the system meet that
14 worst peak?

15 WITNESS WALSH: Yes. Yes.

16 WITNESS DIXON: One of the things we
17 have in place, just on the rate side of things, you know,
18 a lot of that peak demand comes from the 900 to 1,000
19 seasonal customers that we have. So, those customers do
20 have seasonal rates that are a decent bit higher than the
21 average customers. So, there is a rate mechanism in place
22 to try to temper some of that. That's both in terms of
23 how much water is used, as well as that fixed service
24 charge.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 CMSR. SCOTT: Okay. Thank you.

2 BY CMSR. SCOTT:

3 Q. And, going to the Exhibit 4, the Partial Settlement
4 Agreement, and I'll apologize, I think some of this has
5 been discussed, but I just want to, obviously, clarity
6 is obviously better than lack of it. The last, Item 13
7 on your Agreement page, I guess, you talk about a "cost
8 of service study". Is that, now, again whoever can
9 answer best, please do so, is that defined somewhere,
10 what will be included in that study, what the
11 parameters will be?

12 A. (Dixon) I think a cost of service study, it's pretty
13 well defined what it's attempting to do. It's taking
14 our full revenue requirement and examines sort of all
15 the -- it breaks that revenue requirement up into
16 functional categories and assigns those to the
17 particular classes of customer. And, what we're
18 talking about here is very consistent with what we put
19 forward in our 2005 rate case. It would be an update
20 of that to see if there's been a change, in terms of
21 where that revenue requirement should be directed.

22 Q. Okay. So, again, to paraphrase, so, all the parties
23 understand what we'd expect to see in this Partial
24 Settlement Agreement, if it was executed, the cost of

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 service study would be very much like the one that was
2 submitted earlier then, is that correct?

3 A. (Eckberg) Yes.

4 A. (Naylor) That's our expectation.

5 A. (Eckberg) Yes. I would agree with those comments. I
6 did, in fact, speak with our outside expert, Mr. Rubin,
7 when we were developing this Settlement Agreement. I
8 spoke with him about whether he thought we should add
9 any additional specific language to this term about
10 further defining the parameters of the cost of service
11 study, and he felt this was adequate. And, I mention
12 that only because Mr. Rubin is very much a water cost
13 of service study expert. So, he was satisfied with
14 this.

15 Q. Okay. That's good to hear. And, again, this is
16 rehashing a little bit, I know, on Item 11, regarding
17 "Missed Appointment Fee", just to clarify for me, for
18 the reciprocal part of that, and you may have stated it
19 and I might have missed it, is, if the Company -- it
20 says right now, the language says "if the Company fails
21 to appear". Is there a time constraint on that? Is it
22 the same day? Is it the same week? Within a couple
23 hours?

24 A. (Dixon) Do you recall that, Carl?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 WITNESS McMORRAN: It's the same
2 two-hour window for the appointment.

3 CMSR. SCOTT: Okay.

4 WITNESS McMORRAN: If they expect us
5 there from 8:00 to 10:00, we expect them there the same
6 time frame.

7 CMSR. SCOTT: Okay. That's good. Thank
8 you.

9 BY CMSR. SCOTT:

10 Q. And, Item 8, the "\$50,000" figure, I was curious if
11 there is -- why is that an appropriate number? Is
12 there a basis for that number? Is there an historical,
13 going back in time?

14 A. (Eckberg) Yes. There was discovery conducted by the
15 OCA to examine the amount of emergency replacements,
16 the cost of that that had been included each year over
17 the last three years of the WICA. And, this number
18 here represented a reasonable compromise of the average
19 amount for each year, based upon back-and-forth
20 discussions, in compromise, that we all agreed should
21 be excluded. That the purpose of the WICA was not to
22 try and cover costs for emergency response repairs, but
23 for planned improvements. So, that's -- the number was
24 based upon historical installations.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Okay. Thank you. So, then, again, so that's -- it
2 sounds like you had historical, with, I don't know if
3 there's an adjustment factor for a CPI index or
4 something, but it's an historical average, correct?

5 A. (Eckberg) No, we didn't include any sort of an
6 escalating scale. We were satisfied with keeping it
7 simple like it is.

8 CMSR. SCOTT: Okay. Thank you. That's
9 all I have.

10 CHAIRMAN IGNATIUS: I have just a few
11 questions.

12 BY CHAIRMAN IGNATIUS:

13 Q. In the Settlement Agreement, in Exhibit 4, the Item 12,
14 the "Collect at the Door Fee", Mr. Dixon, do you have a
15 sense of the number of customers who end up paying when
16 someone comes to the door, over the course of either
17 the test year or any other data you may have?

18 A. (Dixon) Well, I'll let Carl speak maybe to numbers, but
19 I think what was noticed is that there was a rather
20 large trend of people that would wait to pay their bill
21 until we showed up to collect. And, I think there were
22 a lot of repeat offenders.

23 Do you know any numbers, Carl, behind
24 it?

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 WITNESS McMORRAN: It's not a lot. It's
2 a handful in any given month, but it's the same people
3 that just don't do anything until we show up, so, you
4 know, they save postage, but it costs us, you know, a half
5 an hour labor and vehicles and everything else. So,
6 that's what the purpose of it is.

7 CHAIRMAN IGNATIUS: And, the provision
8 in the proposed Settlement Agreement is that the first
9 time each calendar year there will be no charge, but any
10 time thereafter there will be this charge?

11 WITNESS McMORRAN: Yes.

12 CHAIRMAN IGNATIUS: It sounds like
13 you've seen people who do -- do it more than once a year?

14 WITNESS McMORRAN: Yes.

15 CHAIRMAN IGNATIUS: I think it would be
16 interesting if the numbers were to show that the same
17 people take their first freebie every year, and then know
18 that they're going to be hit with a fee and don't pay
19 their bill that way. And, keep track of that, because it
20 may be that once a calendar year is really too generous,
21 and maybe once every five years or once every two years is
22 more appropriate. But maybe we'll just see where the
23 numbers fall after you impose this.

24 BY CHAIRMAN IGNATIUS:

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. I have a question, Mr. Naylor, about the proposal to
2 continue to evaluate the WICA and not try to make any
3 decision about whether it should be permanent at this
4 time. What will you be looking at when it comes time
5 to make an evaluation and a determination about whether
6 it should be disbanded or made permanent? And,
7 therefore, what should the Company be collecting?

8 A. (Naylor) Well, I think we will go back to the original
9 purposes of the WICA. I think those are pretty well
10 laid out in the order in the 2008 rate case. And, I
11 think they're repeated in testimony in this case. But
12 it's really the issue of the acceleration of the rate
13 of replacement of aging infrastructure; it's the
14 mitigation of rate shock, however that may be defined;
15 frequency of rate cases; a more reliable distribution
16 system; less water loss, those kinds of things.

17 Some of those things can be evaluated
18 with metrics and numbers, and some of those things are
19 going to be a little bit more judgment calls. We can
20 look at, you know, has the existence of a WICA
21 surcharge, where customers are getting a relatively
22 small increase each year for completed work, does that
23 mitigate the rate shock coming up in the next case?
24 Well, you need to make some judgment about that. It's

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 more than just some sort of abstract measure. What's
2 driving the rate case in the first place? And, what
3 are all the factors driving the rate case? If there's
4 a substantial increase in property tax, for example, or
5 other costs that the Company has no control of, I mean,
6 you need to take that into account.

7 So, it's certainly possible that a rate
8 increase proposed three or four years from now of
9 15 percent, that may be pretty reasonable, if property
10 taxes have gone up substantially or other costs that
11 the Company has incurred are completely out of their
12 control. But those are the -- I mean, there's like I'd
13 say probably five or six different things that I think
14 we've laid out previously in testimony and the
15 Commission -- the Commission's order in 2008, and
16 they're not going to be the easiest things to evaluate
17 in some cases. But we'll -- the Staff and other
18 parties to a future case will have to make judgments
19 about what they think and present that to the
20 Commission.

21 Q. Mr. Eckberg or Mr. Dixon, any other thoughts on that?

22 A. (Eckberg) Thank you for that opportunity, madam
23 Chairman. I think that the testimony of Mr. Rubin did
24 a very good job of explaining the OCA's expectations

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 about what we would like to see, some of the
2 quantifiable metrics, so to speak, of trying to
3 evaluate the success of the WICA Pilot Program, and
4 specifically Attorney Hollenberg asked me some
5 questions about my understanding, which would be on the
6 record earlier today. But we're certainly optimistic
7 and hopeful, I guess hopeful, that evidence will be
8 available, that the capital spending that the Company
9 has injected through the WICA Program will be able to
10 demonstrate that it has improved the reliability and/or
11 the safety of the Company's service to customers. But
12 I think we'll certainly look back to Mr. Rubin's
13 testimony for some information on how to do that
14 evaluation. Hopefully, other parties will find that
15 useful as well.

16 A. (Dixon) I think some of these are definitely easier to
17 demonstrate than others. You know, the first item on
18 the list, and I think one of the ones we feel most
19 important is, it's really the acceleration of
20 infrastructure replacement. We can demonstrate that
21 one pretty easily, and I think we have in this case,
22 that we have stepped up that level of investment. Some
23 of the metrics, we're going to have to work on those,
24 because some of them, you know, take a little bit

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 longer to really measure. So, demonstrating those,
2 either now, after three years, or after six years,
3 we're going to have to work that out, in terms of what
4 we'll be able to present for data.

5 One of the toughest ones that I have is,
6 you know, the distance between rate cases. That's a
7 real hard one, because WICA doesn't, I'll say, cure
8 everything. And, what I mean by that is, as Mr. Naylor
9 said, it doesn't address what our expenses are doing.
10 It's not going to help us curtail those. If
11 consumption declines continue, it's not going to help
12 out with that.

13 So, if everything else stayed as is and
14 we didn't see that, we may not be in for a rate case,
15 that's true. But it takes a lot for that to happen.
16 And, the other part of this is, you know, we've been --
17 our WICAs average about one and a half percent per
18 year. So, at a certain point, we have to file a rate
19 case, just to sort of reset those targets, because they
20 max out at a certain point. So, it's very hard to say
21 with certainty that we're going to be able to extend
22 beyond a certain period, just because we don't know
23 what a lot of those variables look like. So, that's a
24 challenge for us.

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Can you tell me more what you mean by those variable --
2 the "one and a half percent will max at out some point,
3 so you have to reset it"?

4 A. (Dixon) I'm sorry. WICA, when we come up with the WICA
5 surcharges, they are measured by a certain percentage
6 that's assessed to a customer's bill. So, the WICA
7 tariffs, as they stand now, have a maximum of seven and
8 a half percent, or 5 percent between WICA filings. So,
9 it doesn't take very long to get up to the seven and a
10 half percent, when you're spending one -- when each
11 cumulative charge is one and a half to two percent.
12 You'll get there not long after three years anyway.
13 So, to stay out becomes a little bit difficult in that
14 situation, even if all your costs are the same.

15 Q. So, conceivably, you could be perfectly fine in the
16 rest of your rate structure, but, in order to continue
17 to be able to have recovery for the infrastructure
18 replacements, under the parameters of WICA that is now
19 designed, you'd have to come in for a rate case?

20 A. (Dixon) Yes.

21 A. (Naylor) Or, unless the upper ceiling, the limit of it
22 were changed. I mean, that was negotiated, I think, in
23 the last rate case.

24 A. (Dixon) It was.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 A. (Naylor) That it was an annual ceiling of 5 percent for
2 any one particular year, and a maximum of 7.5
3 cumulatively between rate cases. So, there's nothing
4 that precludes changing that, if parties recommended it
5 and the Commission approved it.

6 A. (Dixon) And, we've seen, just as of today, there is a
7 bill that was passed through the Senate in Connecticut
8 related to increasing these WICA limits. This
9 surcharge here, the five and the seven and a half
10 percent limits were modeled after Connecticut.
11 Connecticut, after it's been in place seven, eight
12 years now, I can't even remember that far back, people
13 are taking advantage of it. And, we've petitioned to
14 have those limits increased. So, the same could happen
15 here.

16 Q. Thank you. And, Mr. Dixon, you said a moment earlier,
17 and I don't know if you were giving real numbers or
18 just kind of throwing it off --

19 A. (Dixon) Uh-huh.

20 Q. -- as a kind of rough estimate, you said "80 percent of
21 our costs are fixed, but 80 percent of our revenue is
22 variable." Is that --

23 A. (Dixon) They're going to be ballpark. They're pretty
24 close, though. If you were to look at a -- I have some

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 numbers in front of me, a current customer bill, with
2 the WICA charges and whatnot, is \$434, 154 of that is
3 fixed, so, 265, which looks more like, it's not
4 80 percent, that's for sure, it is lower than that.
5 But, my point is, there's a lot more at risk in the
6 variable here. But, on the cost side, you know, the
7 costs that change as a result of lower production are
8 related to power and chemicals for the most part. And,
9 that's a smaller part of our costs.

10 Q. You just gave a number for a current bill is "\$434",
11 and I'll never find it now, but I read, in somebody's
12 testimony, what the rate impact would be for the
13 request, and I thought you were ending up somewhere in
14 the \$433 range, not starting at that. Am I remembering
15 wrong?

16 A. (Dixon) No. We actually filed an amendment to
17 Mr. Hibbard's testimony, because the figures in there
18 were in error. I don't remember how we filed that, but
19 I know we did correct that testimony.

20 Q. Okay. So, when you say an average bill, that's at 434,
21 what volume usage are you using as an average?

22 A. (Dixon) Yes. This is Mr. Hibbard's testimony, on Page
23 4. It's 53,300 gallons per customer, that was the
24 average residential usage during our 2011 test year.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. You're right. That's the page where I got the other
2 information. Line 18 had said it would go "from 365 to
3 433".

4 A. (Dixon) Yes.

5 Q. And, you're saying that's not correct?

6 A. (Dixon) It would be \$434.49 to \$515.60, as per the
7 original filing.

8 Q. All right.

9 CMSR. SCOTT: Can you repeat that
10 please?

11 WITNESS DIXON: \$434.49, going up to
12 \$515.60. The per -- up above a couple lines, the "19
13 cents per day" is "22 cents per day". The "\$1.00 dollar
14 to \$1.19" is now "1.19 to 1.41".

15 CHAIRMAN IGNATIUS: But the usage, the
16 "53,300", is that still the same?

17 WITNESS DIXON: That's a good number,
18 yes.

19 CHAIRMAN IGNATIUS: Thank you. One last
20 question for me is the information regarding unaccounted
21 for water in Mr. McMorran's testimony. Your Page 5 said
22 that, of the 4.9 million gallons, "122 million gallons of
23 it were classified as unaccounted-for". That was in the
24 test year 2011. Was that higher, lower than in other

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 years? What's it looking like for 2012 and into 2013?

2 WITNESS McMORRAN: Actually, we don't
3 use the term "unaccounted for" anymore, but lost water has
4 increased over the last couple of years, I think that's
5 the point of your question, if I'm not mistaken.

6 CHAIRMAN IGNATIUS: Why has it
7 increased?

8 WITNESS McMORRAN: It's merely because
9 we've got an aging system. A lot of pipe that's 70 years,
10 over 100 years old. A lot of it's down the beach, it
11 doesn't come up very well.

12 CHAIRMAN IGNATIUS: You have an aging
13 system, but you also have a WICA that's been pumping a lot
14 of investment into the system. Are you seeing any sign
15 that, I mean, I would hope that those numbers would start
16 to reduce?

17 WITNESS McMORRAN: Well, we've only
18 replaced about 6,000 feet of main in the last three years.
19 We have 82,000 -- over 82,000 feet of main that was put in
20 before World War II. So, it's just a tiny fraction of
21 what's out there and what's presumably leaking. So, it's
22 going to be a long-term process before we get enough main
23 replaced, I think, to see a big decline in non-revenue
24 water due to main replacements.

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 CHAIRMAN IGNATIUS: And, do you have
2 surveys that identify leaks? You know what you're dealing
3 with and you've found a way to prioritize those repairs
4 and swap out of new pipe?

5 WITNESS McMORRAN: Yes. Our practice is
6 to do at least two leak surveys a year. And, we find the
7 time to fix promptly, usually within a matter of weeks or
8 so.

9 CHAIRMAN IGNATIUS: So, the fact that it
10 continues at a high rate, and, in fact, is increasing, is
11 because each time you fix something something else is
12 breaking?

13 WITNESS McMORRAN: Yes. A lot of these
14 leaks develop very slowly. Over time, they increase, and
15 eventually get to the point that you can find them, or
16 they -- some of them do come to the surface and we find
17 them right away.

18 CHAIRMAN IGNATIUS: For some companies
19 we hear that there's something of a mystery about
20 unaccounted for water, and they are not sure where it's --
21 why it's happening, they just know that the volumes sold
22 are not the same as the volumes that are sent out. Do you
23 actually know where all of your lost water is or do you
24 have that mystery component as well?

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[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 WITNESS McMORRAN: Well, there's an
2 inherent permissible leakage, I guess the way I'll say,
3 when you put in even brand-new pipe, there's a very, very
4 tiny amount of acceptable leakage that just increases over
5 time. So, it's very defuse, it's throughout the whole
6 system. And, at some point, the leaks develop, some of
7 them develop to the point where it's a major leak, it's
8 found and it's fixed. So, there's a combination of fairly
9 significant leaks that do show up are found and fixed, and
10 then a bunch of smaller, defuse things that you can
11 practically never find. You can never reduce your
12 non-revenue water to zero. It's just not the way the
13 water systems are designed and built.

14 CHAIRMAN IGNATIUS: All right. Another
15 question, Commissioner Harrington.

16 CMSR. HARRINGTON: Yes. One question I
17 was going to ask, another one was prompted by the
18 Chairman's questions.

19 BY CMSR. HARRINGTON:

20 Q. Regarding the changes that we made on Page 4 to
21 Mr. Hibbard's testimony, in the middle of the page, the
22 20 -- went to "22 cents per day", and the "1.19 to
23 1.41" and so forth. Do those numbers reflect the
24 number that appears in Exhibit 18, the 1 million -- on

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Line 29, the "1,077,924"?

2 A. (Dixon) Yes, there's no change. This Page 4 of
3 Mr. Hibbard's testimony was, I'm embarrassed to admit
4 the math error made there, but it's really just an
5 output figure and it doesn't drive anything else in the
6 case.

7 Q. Okay. So, those figures reflect -- as amended, they
8 reflect the figures that are on Exhibit 18?

9 A. (Dixon) Yes.

10 Q. Okay. All right. And, then, getting back to what I
11 was going to ask, having to do with the --

12 A. (Dixon) Well, excuse me, I don't mean to interrupt.
13 But they reflect the figures as per our original
14 request. So, --

15 Q. Original request?

16 A. (Dixon) Yes.

17 Q. Not the modified one?

18 A. (Dixon) Yes.

19 Q. Okay.

20 A. (Dixon) Thank you.

21 Q. All right. That helps. Thank you. Getting back to
22 the part that we were just discussing from
23 Mr. McMorran's testimony on Page 5, having to do with
24 what used to be called as "unaccounted for water". The

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 122 million gallons, that comes out to about 13 percent
2 of what you produced for water. And, I guess, how does
3 that compare with industry averages? And,
4 understanding, of course, that that's never going to be
5 zero or even close to that, and we wouldn't want it to,
6 because it would cost-prohibitive to even try to do
7 that. What is your target for percentage water lost or
8 unaccounted for?

9 WITNESS McMORRAN: The states are --
10 pardon me. The state standard is 15 percent, that's what
11 we use.

12 CMSR. HARRINGTON: So, the state
13 standard is 15 percent. So, you're actually below that
14 standard then?

15 WITNESS McMORRAN: For this data, yes.

16 CMSR. HARRINGTON: And, so, you don't --
17 you are basically then addressing leaks as they come
18 about. You don't have any type of a -- so, are you
19 basically contemplating staying then at where you are, if
20 you're below the standard, or do you have plans to make
21 that 10 percent in the future or whatever?

22 WITNESS McMORRAN: Well, we have a
23 target, it's really not based on a percentage, it's more
24 just a total volume figure. Again, based on the extent of

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 our system, you know, what we can sort of calculate is
2 what the minimum level is. It's not so much based on a
3 percentage. But we do have a regular program of
4 intentionally looking for leaks, fixing them, and crunch
5 through a lot of data on a monthly basis to see how it's
6 trending. If it's going in the wrong direction, we
7 dedicate a few more resources towards it.

8 CMSR. HARRINGTON: And, sort of a
9 follow-up to my previous question on this then, I'd be
10 interested in, you know, this figure of 122, I'm assuming
11 that didn't include the 17, which I'm going to again
12 assume were major leaks that were repaired, due to
13 identification by the ARRA funding?

14 WITNESS McMORRAN: That time period, it
15 did include some of the volume attributed to those leaks,
16 yes.

17 CMSR. HARRINGTON: Okay. Maybe you can
18 give us that as I previously asked on that. Thank you.
19 That's all I had.

20 CHAIRMAN IGNATIUS: Thank you. Is there
21 any redirect? Well, we don't normally do recross. So,
22 Mr. Gearrard, you're rising as if you've got questions?

23 MR. GEARRALD: Yes. Madam Chairman,
24 just so you know, back at the hearing, when we had on the

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 prehearing conference on July 11th, 2012, we identified to
2 the Commission that a major source of concern for the Town
3 of Hampton was that it appeared to us that the decline in
4 consumption, which is identified in the Petition as being
5 19.3 percent of the revenue requirement, was actually
6 penalizing consumers for saving water and declining
7 consumption. And, we, in turn, conducted some discovery
8 on that point, and actually got some calculation of the
9 figure of the revenue increase that corresponds to that.
10 And, this is reflected -- it's not entirely reflected in
11 the pie chart in the Petition.

12 And, we would like to ask some limited
13 questions on that subject, as we did conduct discovery on
14 that. And, that's one of the points identified in the
15 Town Manager's testimony, Fred Welch's testimony, Exhibit
16 15, as being a major source of our opposition to this rate
17 increase.

18 CHAIRMAN IGNATIUS: And, he's going to
19 be testifying later, is he not?

20 MR. GEARRALD: He will, madam Chairman.
21 But, of course, the data as to what that means was
22 developed through discovery to the Company. Mr. Dixon has
23 testified about that. And, we'd like, and this is the
24 point, I believe, where the Commissioners asked questions,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 that we'd like to ask questions about that, too.

2 And, just so you know, the Commission
3 itself, in its letter of December 17th, asked some
4 questions that they expected answers to on the success in
5 reducing water usage through conservation. What Aquarion
6 has considered as a response, and as I understand it from
7 Attorney Taylor, that's something he was going to now ask
8 Mr. Dixon about as well, as the Company's response to the
9 challenge posed by the Commissioners.

10 But, if I might first just develop the
11 revenue figure, how much of that revenue figure is
12 attributable to loss of consumption, I think would be
13 helpful to the Commission, at least to understand our
14 opposition.

15 MR. TAYLOR: I would just say that, if I
16 may, --

17 CHAIRMAN IGNATIUS: Please.

18 MR. TAYLOR: -- we are going to bring,
19 and I'm just bringing this up in the interest of
20 efficiency and just making the suggestion, we are going to
21 bring Mr. Dixon, Mr. McMorran, Mr. Walsh back to answer
22 some of the questions that the Commission had proposed.
23 And, then, they will also be on the stand and they will be
24 available for cross-examination in the normal course of

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 the proceeding as well. And, so, I just wanted to point
2 that out to the Commission. I know that the Settlement
3 panel is still up there. And, so, if it's more efficient
4 to do it with the Company's witnesses up there, it's just
5 a suggestion.

6 MR. GEARRALD: They have been sworn as
7 witnesses. They have already talked to you about the
8 decline in consumption. I think we're there at that
9 point, if I might.

10 CHAIRMAN IGNATIUS: Well, we have a
11 couple, one very practical problem, the court reporter has
12 been going longer than we should have gone, and we need to
13 take a break. I probably wasn't as clear as I should have
14 been. We try very hard not to have this sort of endless
15 loop of going around and around and around, and thought
16 that people understood if they had questions of these
17 witnesses on anything that related to the Settlement
18 proposal, that that was the opportunity to do that. And,
19 maybe I wasn't very explicit about that.

20 I will allow some limited questions. I
21 think it sounds as though it really fits more with the
22 area that is going to be coming up with the Company panel,
23 maybe others as well, to address the questions posed in
24 the Commission's letter of December 17th. But, if there's

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1 something you really feel you need to bring out right now,
2 I guess I'll allow it. I just really don't want to start
3 another whole trip around the room on that.

4 How many questions do you think you
5 have?

6 MR. GEARRALD: Five or six, I would
7 believe.

8 CHAIRMAN IGNATIUS: All right. Let's go
9 off the record.

10 (Brief off-the-record discussion
11 ensued.)

12 CHAIRMAN IGNATIUS: Then, back on the
13 record. We're going to take a break of ten minutes to
14 give the court reporter a break. And, we'll resume with
15 limited questions on this. I don't know if there's anyone
16 else who has questions on these matters.

17 MS. HOLLENBERG: I would like to ask one
18 question on redirect, just to clarify the response to the
19 question that Commissioner Scott had asked earlier.

20 CHAIRMAN IGNATIUS: All right. And, Ms.
21 Brown, you may have limited redirect as well.

22 MS. BROWN: I don't.

23 CHAIRMAN IGNATIUS: And, then, we will
24 -- and, Mr. Taylor, you may as well.

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1 MR. TAYLOR: We may, based on
2 Mr. Gearrard's questions.

3 CHAIRMAN IGNATIUS: That's where I don't
4 want to go, but let's see how we do. We're going to take
5 a break for ten minutes. Thank you.

6 (Whereupon a recess was taken at 5:02
7 p.m. and the hearing resumed at 5:17
8 p.m.)

9 CHAIRMAN IGNATIUS: All right. We're
10 back on the record. And, Mr. Gearrard, you have limited
11 questions on --

12 MR. GEARRALD: I do. Thank you.

13 CHAIRMAN IGNATIUS: I don't even
14 remember what it's on, but go ahead.

15 MR. GEARRALD: Okay. I'm addressing the
16 subject matter of Commissioner Harrington's inquiries
17 primarily, but also others, too. Commissioner Scott, I
18 think, got into this.

19 BY MR. GEARRALD:

20 Q. Mr. Dixon, I'm drawing your attention to your original
21 testimony, which is the case filing, Exhibit 5A. Do
22 you have that with you?

23 A. (Dixon) I do.

24 Q. Okay. Turning to Page 5 of your testimony, you have a

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 pie chart at the top. And, in order to understand what
2 the pie chart of "Allocation of Proposed Revenue
3 Increase" means, a portion of that pie chart,
4 19.3 percent of it, is revenues, isn't that correct?
5 It's called "Revenues"?

6 A. (Dixon) Yes.

7 Q. And, that actually corresponds to the decline in
8 consumption, correct?

9 A. (Dixon) Yes. The \$214,000 represents revenues from our
10 test year, 2011, adjusted for the WICA revenues,
11 compared to what was in the last -- allowed in the last
12 rate case. That's where that \$214,000 came from.

13 Q. So, the \$214,000, however, does correspond to decline
14 in consumption due to conservation, correct?

15 A. (Dixon) Yes.

16 Q. Yes. And, as I understand it, therefore, part of the
17 revenue requirement that appears in Exhibit 18, whether
18 it be the figure that has been spoken of today, of
19 1,077,924, or a lower figure or a higher figure that
20 results from return on -- rate of return being factored
21 in, there will still be a 19.3 percent of that increase
22 that corresponds to decline in consumption, correct?

23 A. (Dixon) The 214,000 will stay the same, the percentage
24 will be different, yes.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 Q. Yes. The 214,000 remains the same. In terms of the --
2 what the Company's expectations are, in terms of
3 declining consumption, you addressed in your testimony,
4 your rebuttal testimony, which is, let's see, Number 7,
5 Exhibit Number 7, on Page 13, you indicated that "the
6 Company has experienced steady declines in
7 consumption", correct?

8 A. (Dixon) Yes. I don't have a copy of my rebuttal
9 testimony in front of me. I'd just like to read the
10 section.

11 Q. Of course.

12 (Atty. Gearrald handing document to
13 Witness Dixon.)

14 **BY THE WITNESS:**

15 A. (Dixon) Yes.

16 BY MR. GEARRALD:

17 Q. And, you further indicate that the trend in declining
18 consumption is one that is likely to continue for the
19 foreseeable future, correct?

20 A. (Dixon) Yes. We haven't seen a trail-off at this
21 point.

22 Q. Thank you. And, that, in part as a result of declining
23 consumption, the Company believes that it's likely that
24 it will need to file a rate application at least every

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 three years for the foreseeable future, correct?

2 A. (Dixon) I think that's one component of why we'll
3 likely be in here every three years.

4 Q. Now, the Commission, both at the -- the Commission,
5 both at the hearing back in July, the prehearing, and
6 in its letter of December 17, 2012, challenged the
7 Company to deal with this issue in some fashion,
8 correct?

9 A. (Dixon) Yes.

10 Q. And, you are the Director of Rates and Regulation for
11 Aquarion Water Company of Connecticut, Massachusetts,
12 and in New Hampshire, correct?

13 CHAIRMAN IGNATIUS: Mr. Gearrald, I
14 thought we were taking that up in a separate panel of
15 witnesses?

16 MR. GEARRALD: I think that how the
17 Company is addressing the decline in consumption is one
18 that's right in front of us.

19 CHAIRMAN IGNATIUS: Well, it may be, but
20 I thought we had planned that there would be a
21 presentation on all of the issues in that December
22 Commission letter at another time, later, you know,
23 tomorrow, I assume.

24 MR. GEARRALD: If the Chair concludes

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 so, yes.

2 CHAIRMAN IGNATIUS: Well, I just think,
3 if we have you do it, then everybody who's going to want
4 to do it and should do it, including the Commissioners,
5 and the Company would either begin that now or we would do
6 it in two different phases. And, I think it would make
7 more sense to do it all together.

8 MR. GEARRALD: Yes. Just --

9 CHAIRMAN IGNATIUS: So, anything related
10 to that December letter I'd ask you to hold off on.

11 MR. GEARRALD: Okay.

12 BY MR. GEARRALD:

13 Q. But just in terms of one further question on the
14 decline in consumption, you had a chart that appeared,
15 I believe, in your original testimony, it's right in
16 front of you, on Page 6, showing the trend in declining
17 consumption.

18 A. (Dixon) Yes.

19 Q. I believe, in response to Staff Data Request Set 2-25,
20 you provided some dollar figures by year to correspond
21 -- I'm sorry, gallonage figures per year that
22 corresponds to the decline in consumption?

23 A. (Dixon) Yes. That's correct.

24 MR. GEARRALD: I would ask that this be

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 marked as an exhibit as cross-examination on this very
2 point.

3 CHAIRMAN IGNATIUS: Can you describe
4 what it is and we'll mark it for identification?

5 MR. GEARRALD: Yes. This is --

6 BY MR. GEARRALD:

7 Q. Mr. Dixon, this is a year-by-year, from 2007 to 2011 of
8 the test year of the gallonage that corresponds to the
9 figures that appear in your testimony on Page 6,
10 correct?

11 A. (Dixon) Yes. It's a simple average of residential
12 consumption divided by the number of customers to
13 produce the figures that are in the chart.

14 CHAIRMAN IGNATIUS: Do you have copies
15 for everyone?

16 MR. GEARRALD: Yes.

17 CHAIRMAN IGNATIUS: Thank you. We'll
18 mark that then as "Exhibit 19" for identification.

19 (The document, as described, was
20 herewith marked as **Exhibit 19** for
21 identification.)

22 (Atty. Gearrald distributing documents.)

23 CHAIRMAN IGNATIUS: And, be sure to save
24 one for the court reporter please.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 MR. TAYLOR: Commissioner, if I may ask
2 just for clarification, there was a record request
3 earlier. And, we just wanted to clarify, is that, the
4 answer to that record request, intended to be
5 Exhibit Number 19 or is that intended to be treated
6 differently?

7 CHAIRMAN IGNATIUS: You know, sometimes
8 we make them part of the record -- part of the exhibit
9 numbers and sometimes we don't. So, sure. Let's make
10 that -- let's make the record request Exhibit 20.

11 MR. TAYLOR: I'm sorry.

12 MS. BROWN: I believe, if we're going in
13 sequence, Record Request Number 1 would be "Exhibit 19",
14 and this Staff 2-25 would be "Exhibit 20", is that
15 correct?

16 CHAIRMAN IGNATIUS: I understand that.
17 But, since I had already written "19", I was --

18 (Laughter.)

19 MS. BROWN: Okay. Fine.

20 CHAIRMAN IGNATIUS: -- saving myself
21 from scribbling.

22 **(Exhibit 20 reserved)**

23 MS. BROWN: I can go with that. So,
24 then, Staff 2-25 is going to be "Exhibit 19" then? Oh,

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 wait, no.

2 CHAIRMAN IGNATIUS: Yes. Yes.

3 MS. BROWN: Thank you.

4 CHAIRMAN IGNATIUS: Thank you.

5 MR. GEARRALD: And, so, I did promise
6 only a few questions, and I understand that this witness,
7 Mr. Dixon, is coming back to talk about the Company's
8 response to the Commission's letter, we'll stop at this
9 point.

10 CHAIRMAN IGNATIUS: All right. Thank
11 you. I appreciate that. Any further redirect from --

12 MS. HOLLENBERG: May I?

13 CHAIRMAN IGNATIUS: Let's first start
14 with the -- redirect is generally the parties favorable to
15 the Settlement being proposed. So, Ms. Hollenberg.

16 MS. HOLLENBERG: Thank you.

17 **REDIRECT EXAMINATION**

18 BY MS. HOLLENBERG:

19 Q. Mr. Eckberg, on questioning by Commissioner Scott, you
20 were asked about the \$50,000 threshold that is found in
21 Term --

22 A. (Eckberg) Number 8.

23 Q. -- Number 8 on the Partial Settlement terms. And, have
24 you had an opportunity during the break to consider

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 some information from our office to -- that would help
2 you clarify your response to Commissioner Scott about
3 where that number was derived?

4 A. (Eckberg) Yes, I have had that opportunity. Thank you
5 for your question. I reviewed some e-mails,
6 correspondence between our consultant, Mr. Rubin, and
7 analysts, including myself, in our office, and the
8 former OCA member, Ms. McFarland. And, the \$50,000
9 figure was derived by Mr. Rubin by his examination of
10 Aquarion's 2011 and 2012 WICA Program filings. Those
11 filings showed actual 2010 and 2011 spending data.
12 And, he focused on the emergency or reactive costs that
13 were invested by the Company on hydrants, services, and
14 valves. And, he came up with the suggested figure of
15 \$50,000, which was intended to convey the sentiment
16 that the Company should expend the first \$50,000 of
17 these types of repairs, emergency repairs, out of its
18 existing O&M or capital budgets, rather than include
19 them in the WICA itself. And, that the WICA would be
20 intended to be above and beyond normal spending levels
21 for those types of repairs. So, hopefully, that adds a
22 little level of clarification to that response I gave
23 earlier.

24 CMSR. SCOTT: Thank you.

[WITNESS PANEL: Dixon~Eckberg~Naylor]

1 MS. HOLLENBERG: Thank you.

2 CHAIRMAN IGNATIUS: Thank you.

3 Ms. Brown, any redirect?

4 MS. BROWN: The Staff has none.

5 CHAIRMAN IGNATIUS: Mr. Taylor?

6 MR. TAYLOR: The Company has no
7 redirect.

8 CHAIRMAN IGNATIUS: All right. Then,
9 the witnesses are excused. Thank you. What is the
10 intention -- oh, before we do the next witnesses, there is
11 the letter of the Office of Consumer Advocate to excuse
12 Mr. Rubin from testifying.

13 MS. HOLLENBERG: Yes.

14 CHAIRMAN IGNATIUS: And, at the time
15 that that was filed, it stated that the Staff and the
16 Company weren't opposed to the request, but Hampton and
17 North Hampton had not had an opportunity to give their
18 positions. I assume that that's acceptable, that
19 Mr. Rubin not testify?

20 MR. RATIGAN: That's correct, from North
21 Hampton.

22 MR. GEARRALD: We would appreciate his
23 testimony, however, it is being marked as a full exhibit.

24 CHAIRMAN IGNATIUS: All right. And, it

1 has been marked as "Exhibit 12", and without the need for
2 him to personally authenticate it. So, we will do that.
3 Then, thank you. Obviously, Mr. Rubin does not need to
4 jump on a plane and get back here.

5 MS. HOLLENBERG: Thank you.

6 CHAIRMAN IGNATIUS: What then has been
7 planned for the next witnesses?

8 MR. TAYLOR: We had discussed earlier of
9 putting on Mr. Dixon, Mr. McMorran, and Mr. Walsh, and
10 walking through the Commission's questions that had been
11 set forth in the Commission's letter of, I believe,
12 December 17th. And, so, we would still continue with that
13 plan, if that's all right with the Commission?

14 CHAIRMAN IGNATIUS: All right. That's
15 acceptable. Then, why don't we excuse you, gentlemen.
16 Thank you very much for your testimony.

17 MR. GEARRALD: Madam Chairman, I'm
18 sorry, if I might suggest, just because of the hour, I
19 have two witnesses whose testimonies have been
20 pre-submitted, Chairman Bean and Town Manager Welch, they
21 will not be able to be in tomorrow as they are today. I
22 think the Company witnesses, who are proposed to be put on
23 at this point, will be here tomorrow. I understand that,
24 having talked with counsel for Aquarion, that they will

1 not object if we put the testimonies in as is, without --
2 with only some minor amplification on Mr. Welch's
3 testimony because of having a "History of the Rate
4 Increase" chart, which is asking the Commission to take
5 notice of its own records on what increases have been
6 granted, what increases would be -- are being sought, and
7 also letting the Commission know of the Town's response to
8 the court orders that have been given concerning the
9 Right-of-Way Tax that's been called attention to, and how
10 much that means.

11 CHAIRMAN IGNATIUS: So, the proposal
12 would be to have Mr. Welch and Mr. Bean testify now,
13 and --

14 MR. GEARRALD: My plan is only to go
15 beyond the testimonies that have already been submitted,
16 with regard to Mr. Welch, for the limited purposes of
17 putting in a chart showing the history of rate increases,
18 which can be found in the Commission's own files. They
19 represent statements of the Town's position on the
20 subject. And, I understand there would be limited to no
21 cross on the subject from the Company.

22 CHAIRMAN IGNATIUS: Is there any
23 opposition from any of the parties to putting the two
24 gentlemen on now and not making them come back tomorrow?

1 MS. BROWN: Staff has no objection.

2 MR. TAYLOR: If I could just take a
3 moment.

4 MR. LANDMAN: North Hampton has no
5 objection.

6 MR. TAYLOR: No, the Company has no
7 objection.

8 CHAIRMAN IGNATIUS: All right. Then,
9 that's a good plan. Let's go ahead and get -- and are
10 they going to testify together?

11 MR. GEARRALD: I think that would be
12 best at this point.

13 CHAIRMAN IGNATIUS: That's fine.

14 (Whereupon **Philip W. Bean** and
15 **Frederick W. Welch** were duly sworn by
16 the Court Reporter.)

17 MR. GEARRALD: And, if they could just
18 bring their respective files up, I think that would hasten
19 the process.

20 CHAIRMAN IGNATIUS: Certainly.

21 MR. GEARRALD: Retrieve your files
22 please.

23 MR. CAMERINO: Their counsel could bring
24 it to them.

[WITNESS PANEL: Bean~Welch]

1 MR. GEARRALD: I could. I don't want to
2 drop it or miss something.

3 **PHILIP W. BEAN, SWORN**

4 **FREDERICK W. WELCH, SWORN**

5 **DIRECT EXAMINATION**

6 BY MR. GEARRALD:

7 Q. I'm turning first -- thank you. Mr. Bean, you are the
8 Chairman of the Board of Selectmen of the Town of
9 Hampton?

10 A. (Bean) Yes, sir.

11 Q. And, how long have you been the Chairman of the
12 Selectmen of Hampton?

13 A. (Bean) Several months.

14 Q. And, you have been a government employee for a number
15 of years, prior to your current career in your family
16 business in insurance?

17 A. (Bean) That's correct.

18 Q. And, you worked for the Department of Transportation
19 1977 to 1983 and Department of Navy from 1983 to 2008?

20 A. (Bean) Yes, sir.

21 Q. And, you also had been a selectman in Milton, New
22 Hampshire, correct?

23 A. (Bean) Yes, sir.

24 Q. And, your testimony, as you presented it today, appears

[WITNESS PANEL: Bean~Welch]

1 as Number 16, I believe?

2 A. (Bean) Yes, sir.

3 Q. And, that is the expression of the Town's position, and
4 also attaching products of discovery in this matter?

5 A. (Bean) Yes, sir.

6 MR. GEARRALD: I'd ask that that be
7 allowed to be -- the ID be allowed to be stricken, so I
8 don't have to --

9 CHAIRMAN IGNATIUS: We'll mark it for
10 identification as "Exhibit 16".

11 (The document, as described, was
12 herewith marked as **Exhibit 16** for
13 identification.)

14 MR. GEARRALD: Okay. And, just so I
15 know, madam Chairman, I'd like the exhibit, if it could,
16 if the ID could be stricken. I wouldn't want to have to
17 bring Mr. Bean back tomorrow just for that purpose.

18 CHAIRMAN IGNATIUS: Well, our general
19 practice is to leave everything as marked for
20 identification, and then, at the close of the hearing, ask
21 if there is any objection to an exhibit being made a
22 permanent record. There almost never is. I can think of
23 maybe two cases where there's been a dispute. So, I think
24 we'll leave it as is, marked for identification. And,

[WITNESS PANEL: Bean~Welch]

1 then, absent some issue, be made a full exhibit at the
2 close of the record.

3 MR. GEARRALD: Thank you.

4 BY MR. GEARRALD:

5 Q. Mr. Welch, you are the Town Manager of the Town of
6 Hampton?

7 A. (Welch) Yes, sir, I am.

8 Q. And, that's since March of 2007?

9 A. (Welch) Yes, sir.

10 Q. And, your career as a town manager has encompassed
11 several towns as I understand?

12 A. (Welch) That is correct.

13 Q. How many years have -- other towns include what?

14 A. (Welch) Well, in New Hampshire, Ashland, New London,
15 Belmont, Pittsfield, Seabrook, and Hampton.

16 Q. And, your total career in municipal government
17 services, however, spans a lot longer than that.

18 A. (Welch) Fifty-one years.

19 Q. And, I have your testimony here, which has been marked
20 as "Exhibit 15", as corrected, is that right?

21 A. (Welch) That is correct, sir.

22 Q. And, that is your testimony on behalf of the Town
23 expressing the concerns of the Town regarding this rate
24 petition?

[WITNESS PANEL: Bean~Welch]

1 A. (Welch) It is, sir.

2 Q. Part of your testimony in this matter involves a
3 recitation of the frequency and percentage increase of
4 rate increases using the Commission's own dockets, is
5 that correct?

6 A. (Welch) That is correct, sir.

7 (Atty. Gearrald handing document to
8 Witness Welch.)

9 BY MR. GEARRALD:

10 Q. Is this a copy of that?

11 A. (Welch) Yes, sir, it is.

12 MR. GEARRALD: I'd like the Commission
13 to have this as an exhibit as well.

14 CHAIRMAN IGNATIUS: All right. And,
15 this is -- Mr. Welch's pulling data from Commission orders
16 to list rate increases, the years and the amounts? We
17 don't have it. So, I'm guessing at what you're talking
18 about.

19 MR. GEARRALD: Yes. It's from the
20 Commission's own records, actually going back to 1992.

21 CHAIRMAN IGNATIUS: All right. We'll
22 mark that as "Exhibit 20" for -- "21" for identification.

23 (The document, as described, was
24 herewith marked as **Exhibit 21** for

[WITNESS PANEL: Bean~Welch]

1 identification.)

2 (Atty. Gearrard distributing documents.)

3 BY MR. GEARRARD:

4 Q. Mr. Welch, you've heard that the -- one of the factors
5 that Aquarion has sought a rate increase for is the
6 result of increased property taxes?

7 A. (Welch) Yes, sir. That's correct.

8 Q. And, in particular, there is a challenge to the
9 Right-of-Way Tax, is that correct?

10 A. (Welch) Yes, sir.

11 Q. And, you've heard from Mr. Dixon that the Company was
12 successful in that challenge from him, correct?

13 A. (Welch) That is correct, sir.

14 Q. Now, in terms of that particular challenge, I have a
15 couple of -- a copy of a couple of court orders in this
16 regard from the Superior Court in Rockingham, correct?

17 A. (Welch) Yes, sir.

18 Q. And, are these the orders that are being referred to?

19 A. (Welch) Yes, sir. They are.

20 Q. The latest order appears to have a clerk's notice dated
21 "April 30, 2013", is that right?

22 A. (Welch) Yes, sir.

23 Q. So, if the date of that issuance of the order is
24 April 30, 2013, the 30-day appeal time for that to the

[WITNESS PANEL: Bean~Welch]

1 New Hampshire Supreme Court has not yet elapsed,
2 correct?

3 A. (Welch) Yes, sir.

4 Q. Nevertheless, have the Board of Selectmen made a
5 decision as to whether or not to file an appeal to the
6 Supreme Court from that decision?

7 A. (Welch) Yes, sir, they have.

8 Q. And, that was taken as of last Monday night?

9 A. (Welch) Yes, sir.

10 Q. And, what did they decide?

11 A. (Welch) The Board decided not to file an appeal to the
12 order.

13 Q. This particular order, just so we --

14 MR. GEARRALD: I'd like that to be
15 marked as well.

16 CHAIRMAN IGNATIUS: All right. That
17 would be "Exhibit 22" for identification.

18 (The document, as described, was
19 herewith marked as **Exhibit 22** for
20 identification.)

21 (Atty. Gearrald distributing documents.)

22 CHAIRMAN IGNATIUS: This is the "Notice
23 of Decision" from Rockingham Superior Court, dated "May 1,
24 2013".

[WITNESS PANEL: Bean~Welch]

1 MR. GEARRALD: Yes. Thank you.

2 CHAIRMAN IGNATIUS: I'm sorry, the order
3 is dated "April 29th, 2013".

4 MR. GEARRALD: Yes. Yeah, Clerk's
5 notice, April 30.

6 BY MR. GEARRALD:

7 Q. This, Mr. Welch, does this order also include a prior
8 order that the Superior Court was referring to that
9 dated back to February, I believe?

10 A. (Welch) Yes, sir, it does.

11 Q. So that the record will be at least complete about what
12 the Court's talking about?

13 A. (Welch) I believe it's very self-explanatory, sir.

14 Q. Yes. And, so, this was a decision that related to the
15 2011, 2012, and 2013 tax years?

16 A. (Welch) Yes, sir.

17 Q. The 2011 year the court refers to, that's the same year
18 as the test year, except it isn't -- the tax year isn't
19 the same as the calendar year, correct?

20 A. (Welch) Yes, sir.

21 Q. And, so, since this order refers to the test year, I'd
22 like to ask you how much was the Right-of-Way Tax that
23 was assessed in connection with that test year?

24 A. (Welch) Approximately \$63,000.

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Bean~Welch]

1 Q. And, is a similar figure resulting for the 2012 tax
2 year?

3 A. (Welch) Yes. The first year was \$63,512.63. The
4 second year was \$62,980.31.

5 Q. I'm sorry, can you give me that first figure for 2011?

6 A. (Welch) 63,512.63.

7 Q. And 2012?

8 A. (Welch) 62,980.31.

9 Q. The order in question, however, also indicates that the
10 Town is -- that the tax would be valid for going
11 forward, for the year 2013 and beyond?

12 A. (Welch) Yes, sir.

13 Q. Although, each year, of course, is subject to an
14 abatement petition as to the amount, correct?

15 A. (Welch) That is correct.

16 Q. And, this particular challenge had to do with whether
17 or not the Company had notice and a written agreement
18 to assess the tax, correct?

19 A. (Welch) That is correct, sir.

20 Q. And, the Selectmen have, am I correct, taken a vote to
21 amend all consents given for the presence of pipes in
22 the right-of-way prospectively, however those consents
23 were given in the past?

24 A. (Welch) Yes, sir. That's correct.

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Bean~Welch]

1 MR. GEARRALD: That's all the questions
2 I have of these witnesses.

3 CHAIRMAN IGNATIUS: Thank you.

4 MR. GEARRALD: I would ask again that
5 Mr. Welch's testimony be marked as a full exhibit.

6 CHAIRMAN IGNATIUS: Yes. Let me first
7 turn to Mr. Ratigan, as counsel for North Hampton. Do you
8 have any further direct for either of these witnesses?

9 MR. RATIGAN: No.

10 CHAIRMAN IGNATIUS: Then, let's just go
11 around the room, in terms of cross-examination.
12 Mr. Taylor, any questions?

13 MR. TAYLOR: Yes. One question. Good
14 evening, Mr. Welch.

15 WITNESS WELCH: Sir.

16 **CROSS-EXAMINATION**

17 BY MR. TAYLOR:

18 Q. I believe I heard you say earlier in your testimony
19 that the tax applies to 2011, 2012, and 2013. And, I
20 just wanted to clarify something in the order here. If
21 you were to refer to Page 2 of the order, do you have
22 it in front of you?

23 A. (Welch) I do, sir.

24 Q. Okay. In the second paragraph, about middle of the way

[WITNESS PANEL: Bean~Welch]

1 through, the sentence starting "The parties agreed, and
2 the Court now makes clear"?

3 A. (Welch) Uh-huh.

4 Q. "That the Court's February 12, 2013 Order applies to
5 tax years 2011 and 2012."

6 A. (Welch) Yes.

7 Q. Have I read that accurately?

8 A. (Welch) That's correct.

9 Q. And, the tax is being applied in 2013, is that correct?

10 A. (Welch) Yes, sir, it is.

11 Q. And, this Court -- this Order states that the Town is
12 permitted to do that?

13 A. (Welch) Yes, sir.

14 Q. Okay. And, the tax is to be applied prospectively?

15 A. (Welch) Yes.

16 MR. TAYLOR: Thank you.

17 CHAIRMAN IGNATIUS: Ms. Hollenberg,
18 questions?

19 MS. HOLLENBERG: None. Thank you.

20 CHAIRMAN IGNATIUS: Ms. Brown?

21 MS. BROWN: None.

22 BY MS. BROWN:

23 Q. I assume that there are no other corrections or changes
24 that need to be made to the testimony. So, I guess

[WITNESS PANEL: Bean~Welch]

1 that would be a question to both Mr. Bean and
2 Mr. Welch?

3 A. (Bean) No, ma'am.

4 Q. None?

5 A. (Welch) No, ma'am.

6 MS. BROWN: Thank you.

7 CHAIRMAN IGNATIUS: Questions from the
8 Bench? Commissioner Harrington.

9 CMSR. HARRINGTON: Yes.

10 BY CMSR. HARRINGTON:

11 Q. I guess, let's see, just bear with me for a second.
12 I'm trying to get these things. Yes, Mr. Welch.

13 A. (Welch) Sir.

14 Q. In your testimony, if you could, you list a number of
15 reasons why you're -- why the Town is in opposition to
16 the rate increase. And, for the moment, let's forget
17 about the fourth one, which is the return on equity,
18 because we're going to be discussing that, that will be
19 brought up at a different time. So, going backwards,
20 the third one you list is "a major portion of the
21 increase in revenues sought by Aquarion is authorized
22 to make up for losses in revenue due to declines in
23 water consumption, thereby penalizing consumers for
24 conservation." But do you have an alternative to that?

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Bean~Welch]

1 I mean, the fact is that their capital costs and fixed
2 costs stay the same, and, as people use less water, it
3 doesn't reduce the fixed costs. So, what options would
4 you present towards that, to make up for the amount of
5 fixed costs that stay the same, while their revenues go
6 down from sales of water?

7 A. (Welch) Well, their fixed costs will always remain the
8 same. There's nothing we can do about that. It
9 depends on how they borrow their money and from where
10 and on what basis and for what. When you take a look
11 at their operating, I mean, it's the same as the Town,
12 from our perspective. Our fixed costs remain the same.
13 If, for some reason, we have to decrease those fixed
14 costs, we have to decrease something other than our
15 bonded debt. And, that's exactly what we do. Whether
16 that means laying off people, whether it means
17 curtailing certain programs. It depends on what the
18 programs are. I've worked in water companies for 23
19 years. And, when you take a look at your costs overall
20 in a water company, you're looking at a situation of
21 how many employees do I have? What kind of equipment
22 do I have? How often do I -- and what frequency do I
23 use to replace that equipment? What is its expense?
24 How do I do that? Whether it's by bid or I just go out

{DW 12-085} [Day 1] {05-23-13}

[WITNESS PANEL: Bean~Welch]

1 and purchase. They're a private company, they can do
2 that. What about metering? How often do I replace
3 metering? Now, that's an important feature of a
4 company. And, what's that cost to me? And, can I
5 change that frequency? Those are things that should be
6 looked at.

7 We have to do that in our homes, we have
8 to do that in our businesses, we have to do that in our
9 government. So, I think it's a matter of going through
10 incrementally, through the entire budget of the company
11 and say "How can I absorb this without hurting the
12 company?"

13 Q. Okay. That's a good answer. And, then, the second one
14 you talk about is the fact that the rates have been
15 more frequent in spite of the pilot WICA Program. Do
16 you have any specific things you would like to see
17 changed in the WICA Program or --

18 A. (Welch) Other than having it eliminated. I think
19 that's one of my objections to the Program, is the fact
20 that we continue to -- we continue to fund these things
21 forward. Now, I don't know whether they're borrowing
22 this money. And, quite frankly, if this were a
23 municipal operation, we would be out finding out what
24 needed to be replaced, what the frequency was, and we

[WITNESS PANEL: Bean~Welch]

1 would be planning on borrowing that money and having a
2 fixed period of time to pay it back. And, then, it
3 would disappear off the rate. The WICA Program doesn't
4 appear to have it disappear off the rate. If you have
5 a 5 percent increase in year one, for instance, because
6 you need to replace X number of feet of main, does that
7 5 percent stay there forever? It's a question, and
8 people have asked those questions. There's not really
9 an understanding of the answer to it, I think, on the
10 average person.

11 But, in municipal government, we do it
12 differently. So, I realize they're a private company,
13 they have a different -- a different process to go
14 through. But we would simply bond it. At the end of
15 the bonding period, it would disappear, and those
16 expenses would disappear as well.

17 CMSR. HARRINGTON: All right. Thank
18 you. That's all the questions I have.

19 CHAIRMAN IGNATIUS: Commissioner Scott,
20 questions?

21 BY CMSR. SCOTT:

22 Q. Well, while I have you, I was curious of your opinion
23 of the service the Company is providing right now?

24 A. (Welch) I think the service the Company provides is

[WITNESS PANEL: Bean~Welch]

1 very good. There are -- we have constant interface
2 with them. They provide a good quality of water.
3 There's nothing wrong with that. Their quality is
4 excellent. Their maintenance people are excellent. We
5 receive probably two to three leak warnings a week,
6 where they have to be out doing work. They're on top
7 of leaks all the time. We have a Road Maintenance
8 Program and a Sewer Replacement Program, and they're
9 working with us to replace water lines within those
10 streets. We're doing three of them at the moment.
11 And, they're just, I think, finishing those three at
12 the moment, very aggressive on getting that work done.
13 So, I think the company, itself, is excellent.

14 Q. Thank you. That's good to hear.

15 A. (Bean) Also, I would like to say, Commissioner, if I
16 may, I think it is an outstanding company. We have a
17 difference of opinion on --

18 (Court reporter interruption.)

19 **CONTINUED BY THE WITNESS:**

20 A. (Bean) I'm sorry. It is an outstanding company. They
21 do a great job. Thank you.

22 BY CMSR. SCOTT:

23 Q. I suspect I might get the same answer you gave
24 Commissioner Harrington, which is fine, if that's the

[WITNESS PANEL: Bean~Welch]

1 case. We heard earlier this afternoon that the
2 Company, and I forget who it was, mentioned that there
3 were 82,000 feet of main that were pre-World War 2
4 vintage in the system. I was curious if you had a view
5 of how -- should something be done differently?
6 Obviously, you don't like the WICA, and I think I've
7 heard that and read that. But do you -- what would
8 your solution be, in your perspective, to the aging
9 infrastructure, if you will?

10 A. (Welch) Well, we have the same problem with the sewer
11 plant.

12 Q. Right.

13 A. (Welch) What they didn't tell you is what the piping is
14 composed of. And, that has a wide variant -- variable
15 across New England. It just depends on where you are,
16 what they decided to install. Having worked on 1880
17 water mains, and had to refit them to reline them,
18 that's one option, provided you have the right type of
19 main. If you don't, and there are a lot in New
20 Hampshire that are not, then you have no better process
21 than to replace them. But I think that's better done
22 on a bonding-type situation than it is on a rate change
23 basis. Yes, the rate will change to absorb the bond.
24 But, once the bond is paid, the rate will go away.

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[WITNESS PANEL: Bean~Welch]

1 And, I think that's what people are looking at. I
2 think that's what they're expecting. We have,
3 unfortunately, at the moment, to give you an idea,
4 Hampton is looked at as a very affluent community. It
5 isn't. It's a working class community. I know that
6 our Board is going to be wrestling Monday night with
7 taking 50 pieces of property for non-payment of taxes.
8 That's an unusually high percentage. Our welfare
9 expenses are through the roof, and they're getting
10 bigger, because people economically are in danger,
11 simply because of the economy and the way it is and the
12 result of the last few years. That all plays into
13 this. And, there needs to be, at least in my opinion,
14 a better way to fund how we do things. And maybe,
15 together, we can work that out, and these things can go
16 forward, and we can have a better water system, because
17 they'll have fewer old mains, fewer old meters, and
18 probably a lot new employees, because, as we get older
19 and we retire, new technology comes along and replaces
20 us.

21 But I think it's a work-in-progress, and
22 I think they try to do a very good job at it. It's a
23 very difficult process. And, Hampton is a difficult
24 town to work in, simply because we have a huge high

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[WITNESS PANEL: Bean~Welch]

1 water table. The Atlantic Ocean doesn't do us any
2 favors, and it certainly doesn't do their system any
3 favors either.

4 CMSR. SCOTT: Thank you. And, when I
5 mentioned "aging infrastructure", I was not talking about
6 us.

7 WITNESS WELCH: No.

8 CMSR. SCOTT: Thank you.

9 WITNESS WELCH: Point well made. I
10 understand. Thank you.

11 CHAIRMAN IGNATIUS: Thank you. Eh, wait
12 a minute.

13 MS. BROWN: You're not done.

14 CHAIRMAN IGNATIUS: You may be done.
15 But I don't have any questions, so, you're okay there.

16 WITNESS WELCH: Okay.

17 CHAIRMAN IGNATIUS: Any redirect, Mr.
18 Gearrald?

19 MR. GEARRALD: No. Thank you.

20 CHAIRMAN IGNATIUS: All right. Then,
21 now you're done.

22 (Laughter.)

23 WITNESS WELCH: I'll make sure his
24 paycheck is signed when I leave.

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 CHAIRMAN IGNATIUS: So, it's not quite
2 6:00. It would be nice to plow forward a bit more. Can
3 we go to the witnesses to address the Commission's
4 December 17, 2012 letter?

5 MR. TAYLOR: Yes. I'll call to the
6 stand Troy Dixon, John Walsh, and Carl McMorran for the
7 Company.

8 (Whereupon **Troy Dixon, John Walsh,** and
9 **Carl McMorran** were called to the stand,
10 having been previously sworn by the
11 Court Reporter.)

12 CHAIRMAN IGNATIUS: You've been
13 previously sworn. So, we won't bother with that again.
14 You may proceed, Mr. Taylor.

15 MR. TAYLOR: Sure. Although, since I
16 have them up there, perhaps I ought to just have their
17 testimony put into the record?

18 CHAIRMAN IGNATIUS: Yes, please.

19 **TROY DIXON, Previously sworn.**

20 **JOHN WALSH, Previously sworn.**

21 **CARL McMORRAN, Previously sworn.**

22 **DIRECT EXAMINATION**

23 BY MR. TAYLOR:

24 Q. Mr. Dixon, the filing marked as "Exhibit 5" in this

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 case -- yes, marked as "Exhibit 5" in this case
2 contains testimony bearing your name. Was this
3 testimony prepared by you or under your direction?

4 A. (Dixon) Yes, it was.

5 Q. Do you have any corrections or changes that you'd like
6 to make at this time?

7 A. (Dixon) No, I do not.

8 Q. Is the knowledge true and correct to the best of your
9 knowledge and belief -- I'm sorry, is the testimony
10 correct to the best of your knowledge and belief?

11 A. (Dixon) Yes.

12 Q. Mr. McMorran, the filing marked as Exhibit 4 contains
13 testimony bearing your name -- I'm sorry, marked as
14 "Exhibit 5" contains testimony bearing your name. Was
15 this testimony prepared by you or under your direction?

16 A. (McMorran) Yes.

17 Q. Do you have any corrections or changes that you'd like
18 to make at this time?

19 A. (McMorran) No.

20 Q. Is the testimony true and correct to the best of your
21 knowledge and belief?

22 A. (McMorran) Yes.

23 Q. And, Mr. Walsh, the filing marked as "Exhibit 5"
24 contains testimony bearing Mr. Hibbard's name. And,

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 the exhibit marked as "Exhibit 6" contains testimony
2 bearing your name, is that correct?

3 A. (Walsh) Yes.

4 Q. Okay. And, what was the purpose of your testimony in
5 this case?

6 A. (Walsh) To give an overview of the Company and the
7 reasons for filing the rate case.

8 Q. And, just to clarify, the purpose of filing your
9 testimony was to adopt the testimony of Mr. Hibbard.

10 A. (Walsh) Oh.

11 Q. Is that correct?

12 A. (Walsh) Yes. I'm sorry.

13 Q. Are there any corrections --

14 MR. GEARRALD: I'm sorry, madam
15 Chairman. I just wondered, are we getting into the
16 answers to the Company -- to the Commissioners' questions
17 on December 17th or are we getting into the case-in-chief?
18 That's what I was wondering.

19 CHAIRMAN IGNATIUS: Yes. It's a fair
20 question.

21 MR. TAYLOR: I just thought, because I
22 had them up there, I would just take care of it now.

23 CHAIRMAN IGNATIUS: But help me
24 understand. Are they also being -- is your intention to

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 call them again for other, at another point, or no?

2 MR. TAYLOR: The intention was to first
3 just address the questions that the Commission has
4 addressed in its letter, and that was the intention. And,
5 then, we would call them again for --

6 MR. CAMERINO: Can't we just leave them
7 up there?

8 MR. TAYLOR: Yes. I mean, we would
9 leave them up there, once we ran through those questions,
10 and they would then be open to other questions, to the
11 extent that people had questions for them.

12 MR. GEARRALD: May we just -- may I
13 suggest, given the hour, that we take the Commission's
14 questions at this time? Otherwise, we'll get into an
15 examination that's going to cover a lot.

16 CHAIRMAN IGNATIUS: Okay. That's fine.

17 MR. TAYLOR: That was my intent, was to
18 run through the questions.

19 CHAIRMAN IGNATIUS: That's fine.

20 MR. TAYLOR: But since -- may I continue
21 just having the testimony marked in --

22 CHAIRMAN IGNATIUS: Yes. Please do.

23 MR. TAYLOR: -- while we're going?

24 Okay.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 BY MR. TAYLOR:

2 Q. Mr. Walsh, do you have any corrections that you would
3 like to make to the testimony of Mr. Hibbard?

4 A. (Walsh) Yes.

5 Q. Okay. Could you please explain those to the Commission
6 at this time.

7 A. (Walsh) So, there is a -- would you like me to just
8 simply read in what has been provided for a correction?

9 Q. To the extent that there are corrections to
10 Mr. Hibbard's testimony, yes. Could you please explain
11 those to what they are, to the Commission at this time.
12 And, if it means reading them in from the letter that
13 was sent to the Commission earlier in the docket, that
14 should be fine.

15 A. (Walsh) So, there was an error in calculation in the
16 testimony of Harry Hibbard, Page 20 of 171, Lines 15
17 through 18. The correction should read: "As proposed,
18 a typical residential customer's bill using
19 approximately 53,300 gallons of water annually would
20 increase 22 cents per day from \$1.19 to \$1.41, or an
21 increase of approximately 18.7 percent."

22 MR. GEARRALD: I'm sorry, what page was
23 that again?

24 WITNESS WALSH: 20 of 171.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 MS. BROWN: Can I also note for the
2 record that these are corrections I believe you're reading
3 verbatim from a June 13th dated letter that was filed with
4 the Commission on the 14th.

5 CHAIRMAN IGNATIUS: That's fine.

6 WITNESS WALSH: I'll continue with the
7 correction?

8 CHAIRMAN IGNATIUS: Yes. I don't know
9 how many of them there are. I don't have that letter
10 easily to find. So, if it's already fully stated, is
11 there anything in addition to that letter that we should
12 -- any other corrections that aren't contained in that
13 letter, just in the interest of time?

14 WITNESS WALSH: No.

15 MR. TAYLOR: No.

16 CHAIRMAN IGNATIUS: All right. Then,
17 we'll accept the corrections that are in that letter.

18 MR. TAYLOR: And, we can mark the letter
19 as an exhibit, if that would be helpful?

20 CHAIRMAN IGNATIUS: All right. Why
21 don't you do that.

22 MR. GEARRALD: Yes, I think it might be.

23 CHAIRMAN IGNATIUS: Why don't you do
24 that.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 MR. GEARRALD: If I could have a copy of
2 it.

3 CHAIRMAN IGNATIUS: We'll mark that as
4 "Exhibit 23". So that we'll mark that for identification
5 as "Exhibit 23". This is the June 13, 2012 letter, from
6 Mr. Taylor to Debra Howland.

7 (The document, as described, was
8 herewith marked as **Exhibit 23** for
9 identification.)

10 BY MR. TAYLOR:

11 Q. And, just finally, before I proceed, Mr. Dixon, Exhibit
12 Number 7 contains rebuttal testimony under your name?

13 A. (Dixon) Yes.

14 Q. Was this prepared by you or under your direction?

15 A. (Dixon) Yes, it was.

16 Q. Did you have any corrections that you'd like to make to
17 that at this time?

18 A. (Dixon) No.

19 Q. Okay. And, is that testimony true and accurate to the
20 best of your knowledge and belief?

21 A. (Dixon) Yes, it is.

22 Q. And, Mr. McMorran, also in Exhibit 7 contains testimony
23 bearing your name. Was that testimony prepared by you
24 or under your direction?

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 A. (McMorran) Yes.

2 Q. Are there any corrections you'd like to make to that
3 testimony at this time?

4 A. (McMorran) No.

5 Q. And, is it accurate to the best of your knowledge and
6 belief?

7 A. (McMorran) Yes.

8 Q. On December 17th, 2012, the Commission issued a letter
9 to the Company. Do you need copies? Do you have
10 copies before you?

11 MR. TAYLOR: I don't believe this has
12 been premarked. So, I can mark this as an exhibit, if the
13 Commission would like a copy?

14 CHAIRMAN IGNATIUS: It's in the file. I
15 don't -- I'm not opposed to it being an exhibit, but it
16 may not be necessary. It's part of the file. But --

17 MR. TAYLOR: That's fine. We don't have
18 to mark it as an exhibit. Just go through the questions.

19 BY MR. TAYLOR:

20 Q. So, I'll just start by asking are the three of you
21 familiar with this letter?

22 A. (Dixon) Yes.

23 A. (Walsh) Yes.

24 A. (McMorran) Yes.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 MR. TAYLOR: With the Commission's
2 permission, I will address the panel directly with these
3 questions?

4 CHAIRMAN IGNATIUS: That's fine.

5 MR. TAYLOR: Okay.

6 BY MR. TAYLOR:

7 Q. The first few questions have to do with rate design.
8 And, the first question is "What is the design peak
9 demand for the Aquarion system? For example, if the
10 design basis highest demand is a hot Saturday afternoon
11 in July with a major fire, how is the system supposed
12 to respond and what assumptions are used?"

13 A. (Walsh) So, I'll answer that question. The design peak
14 is based on our maximum day demand, which is slightly
15 more than 5 million gallons per day. Our wells have a
16 pumping capacity of a little more than
17 5.2 million gallons per day. So, we can cover that
18 maximum day demand with the production from our wells.
19 If there is a fire on a day where there's a maximum
20 demand, whether that fire is large or small, the water
21 to fight that fire would come out of our storage tanks.
22 We have 2.75 million gallons of storage in four tanks
23 in the system.

24 CMSR. HARRINGTON: Excuse me, could you

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 give that number again? Two point what?

2 WITNESS WALSH: 2.75 million gallons in
3 total.

4 CMSR. HARRINGTON: Thank you.

5 **BY THE WITNESS:**

6 A. (Walsh) And, there is a -- the question in here "Is
7 isolation to other portions of the system assumed?"
8 And, we do not assume that we will isolate other
9 portions of the -- some portions of the system to serve
10 others.

11 BY MR. TAYLOR:

12 Q. Forgive me if you addressed this, Mr. Walsh. "Are
13 other smaller fires or unrelated sprinkler system
14 activations" --

15 (Court reporter interruption.)

16 MR. TAYLOR: I'm going to ask the
17 question again a little more slowly.

18 BY MR. TAYLOR:

19 Q. "Are other smaller fires or unrelated sprinkler system
20 activations assumed?"

21 A. (Walsh) Fire demand, whether it's from a small fire or
22 a sprinkler system turning on, or a large fire, they're
23 all assumed in the development of sizing for our
24 storage tank. So, ultimately, you size a storage tank

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 for the largest expected fire flow demand, which means
2 that smaller fire flow demands will also be handled by
3 the storage that you design into the system.

4 Q. "What is the basis for the charges for fire hydrants
5 and sprinkler system that almost never activate?"

6 A. (Walsh) Well, our infrastructure is designed to provide
7 adequate flow and pressure for fire protection. And,
8 what that means is some of the infrastructure, in
9 particular, the pipes and tanks, are sized larger than
10 you would need them to provide domestic service, and
11 the cost of that upsizing is allocated to hydrants and
12 fire services. So, what that means is that fire
13 service charges for hydrants and fire services is not
14 based on the frequency that those assets are activated,
15 it's based on the cost to upsize the system to provide
16 adequate flow and pressure to fight fires 24 hours a
17 day/seven days a week.

18 Q. "Has the Company looked at tiered rates for fire
19 protection charges or a basic capacity payment with
20 additional fees for fire protection system water use?"

21 A. (Walsh) Well, the Company does have tiered rates for
22 fire services; so, four, six, eight-inch fire services.
23 With respect to a tiered rate -- or, excuse me, having
24 a usage charge related to fire protection, there's a

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 couple issues with doing that. First of all, metering
2 the usage at each fire service and each hydrant would
3 be extremely expensive. And, then, the accuracy of
4 those meters, when they actually were activated, would
5 be questionable, because it's not often that you're --
6 you have flow going through those meters. The other
7 thing is from a public policy perspective, charging for
8 usage coming out of a hydrant, might give the wrong
9 incentive. You want people to use whatever water they
10 need to fight fires, as opposed to worrying about how
11 much water is going through the meter.

12 Q. "Given the success in reducing water usage through
13 conservation, which Aquarion cites as a reason for a
14 rates increase, has Aquarion considered tiered block
15 rates that are lower for lower usage but escalate with
16 higher usage?"

17 A. (Dixon) We actually looked closely at inclining block
18 rates as part of our previous rate case, and it was
19 actually part of our application in that case. And, we
20 later withdrew that request because, for the inclining
21 blocks to really take effect, we really need to bill
22 our customers on a monthly basis. And, billing them
23 quarterly, the inclining block rates really don't send
24 the price signal that it's intended to do. So, since

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 that time, we've actually looked at monthly billing for
2 the seasonal customers that we have in Hampton Beach
3 and in the Hampton area, and we've started billing them
4 monthly. We're also looking at it more broadly as part
5 of, you know, the larger Aquarion family. We're doing
6 another pilot for monthly billing in our Connecticut
7 operation, where we're rolling that out to 20,000 of
8 our customers in the Greenwich, Connecticut area. So,
9 we're continuing to look to that, and that may -- it
10 may make its way back to here at a certain point. And,
11 at that point, inclining blocks will make better sense.
12 But, until we're at a point where we can bill monthly,
13 we have not pursued that further.

14 Q. "Because the Aquarion system demand peaks in the
15 summer, have time of year rates been" -- "time of year
16 rates been investigated?"

17 A. (Dixon) Yeah. This is something I alluded to earlier
18 about the peak demands put on the system by the
19 seasonal population. And, that's precisely why there
20 are higher rates for those seasonal customers, both in
21 terms of the amount of water -- the volumetric charge
22 applied to the water they use, as well as the service
23 charge associated with those customers.

24 Q. "What is Aquarion's long term plan for rates? And, how

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 can the Town and/or customers have input in long term
2 planning?"

3 A. (Dixon) In general, our plan for rates, I've said it in
4 a few different venues, is that we're pretty much on a
5 three-year rate cycle in most of the states we operate
6 in. For New Hampshire this time around, we were pretty
7 much out four years, it was a little bit longer. But I
8 would expect that three-year cycle to continue. During
9 that three-year cycle, we hope to continue with the
10 WICA Program, we'll keep that in place. And, you know,
11 we do all that with cost in mind. So, we demonstrated
12 in some of the testimony here some efficiencies we
13 found with chemicals and power, leak detection, water
14 testing, some employee benefit things related to our
15 pension costs, things we've done to try to keep those
16 costs down. So, between rate cases, you know, that is
17 our -- those are our marching orders, is to look for
18 those type of efficiencies. So that, when rate case
19 time does come, we can keep those increases as low as
20 possible. But that is our plan for rates at this
21 point.

22 Q. And, I'm sorry, I basically asked you a compound -- I
23 basically asked you a compound question before. "How
24 can the Town and/or customers have input in long term

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 planning?"

2 A. (Dixon) Well, one of the things that I participate a
3 lot in is the WICA process, those annual filings. And,
4 when we do those filings, part of those is a three-year
5 list of projects that we're going to contemplate doing,
6 we're putting those before the Commission for approval.
7 But, as part of that process, all of the parties are
8 invited to participate. They can give their, you know,
9 positions on the particular main replacements we may
10 want to do. So, there is definitely room for, you
11 know, insight from other parties as part of that
12 process. But I think locally there are a lot of other
13 things we do as well that invite that.

14 A. (Walsh) Yes. On a local basis, we meet with the town
15 managers and selectmen and the North Hampton Water
16 Commission several times a year. I think Town Manager
17 Fred Welch had alluded to that. And, during those
18 discussions, we give them a summary of recent capital
19 improvements or infrastructure projects that we've
20 done, and we give them a list and discuss that list of
21 capital improvements that we're planning to do. We
22 also meet a couple times a year with the fire chiefs in
23 each town, because, of course, their interest is the
24 capacity of our system for fire flows and improvements

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 we're making to improve fire flows.

2 Q. "Will Aquarion's recent rate case in Massachusetts
3 impact New Hampshire customers?"

4 A. (Dixon) Not at all. Each of our states has very
5 separate and distinct books and records. There's no
6 subsidization between entities. Their records are very
7 clearly distinct.

8 Q. And, "Are there rate or other impacts to New Hampshire
9 customers as a result of the acquisition of water
10 companies in Connecticut by Aquarion's parent company?"

11 A. (Dixon) My answer is much the same. The books and
12 records are entirely separated for each of those
13 entities. The one thing I'll say is that, to the
14 extent that there are acquisitions in Connecticut and
15 we add customers to the Connecticut entity, there are
16 services provided by the Connecticut operation for IT,
17 for Customer Service, and those are services that are
18 passed to Massachusetts and New Hampshire. And, the
19 basis for charging those is the customer counts of each
20 of those areas. So, as customers are added in
21 Connecticut, that just means less charges are pushed
22 out to Massachusetts and New Hampshire. So, there's
23 only benefit to be had there by that acquisition.

24 MR. TAYLOR: That covers the questions

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 that appear in the letter. And, as I noted earlier, we
2 plan to call them back or keep them up here for questions
3 related to their testimony at a later time. But it makes
4 sense that, to the extent that there are questions just on
5 these things that we've discussed, I would ask that --
6 well, I would ask, to the extent the parties have them,
7 that we could do those first, because I am going to make
8 them available at another time after this.

9 CHAIRMAN IGNATIUS: All right. Thank
10 you. Why don't we just go around the room. Mr. Ratigan,
11 any questions?

12 MR. RATIGAN: Yes, please.

13 **CROSS-EXAMINATION**

14 BY MR. RATIGAN:

15 Q. Not sure who the correct or appropriate witness would
16 be. There's not any requirement that the fire
17 protection be required -- be recovered through a fire
18 protection hydrant fee, is there?

19 A. (Dixon) The hydrant fee is the means by which we pass
20 that revenue requirement on.

21 Q. That's right. But you could choose to embed it in the
22 customer rates?

23 A. (Dixon) I don't think I've ever seen it, but I would
24 imagine it's possible.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 Q. I'll represent to you that neither Nashua nor
2 Manchester has a hydrant fee for recovering fire
3 protection within the municipality. But they do have a
4 hydrant fee for fire protection outside the
5 municipality. I have a copy of Manchester's tariff for
6 municipal hydrants outside the City of Manchester.
7 It's \$138.99 a quarter, which I'll represent to you is
8 \$560 a year. Do you know what Aquarion's existing
9 hydrant fire protection fee is?

10 A. (Dixon) I don't know off the top --

11 Q. I'll represent to you it's \$1,551 --

12 A. (Dixon) Okay.

13 Q. -- per year.

14 A. (Dixon) That sounds right.

15 Q. And, it's proposed to go up by -- you're asking for an
16 18 percent increase across the board?

17 A. (Dixon) Prior to the Settlement, the figure was
18 17.7 percent.

19 Q. I'll make a rhetorical observation that this difference
20 in price doesn't suggest to me that it's due to cost of
21 service. The difference in price seems to be --

22 MS. HOLLENBERG: Objection. Mr. Ratigan
23 is testifying at this point. And, this is a contested
24 issue. So, --

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 MR. RATIGAN: Okay.

2 BY MR. RATIGAN:

3 Q. Do you think the difference is due to cost of service,
4 to have a discrepancy of that magnitude?

5 A. (Dixon) I would guess that the difference between those
6 are what costs are included in each bucket. I think a
7 regulated entity builds up charges much, much different
8 from what a municipality would do.

9 Q. Well, it --

10 A. (Dixon) I don't know what --

11 Q. And, I'm not sure --

12 A. (Dixon) I don't know what's in their charges.

13 Q. Okay. I'll submit to you that Manchester is regulated
14 as to the cost that it --

15 MS. HOLLENBERG: Objection.

16 CHAIRMAN IGNATIUS: I think, let's see
17 if you can elicit the information from the witnesses, --

18 MR. RATIGAN: Okay.

19 CHAIRMAN IGNATIUS: -- rather than from
20 your own point of view.

21 BY MR. RATIGAN:

22 Q. Do you know whether -- do you know whether Manchester
23 -- do you know whether the City of Manchester is a
24 regulated entity as to the charges that it imposes on

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 customers and users outside of its geographic borders?

2 A. (Dixon) I don't know that.

3 Q. Okay. Can you tell me what the -- if I understood
4 Carl's testimony before on fire protection, three-hour
5 fire, availability of a certain amount of pressure, is
6 that correct?

7 A. (McMorran) Yes, it's a flow rate of 3,000 -- roughly
8 3,000 gallons a minute, I believe, for three hours.

9 Q. Okay. And, do you -- when you fight a fire, you're
10 drawing on tank capacity, is that correct?

11 A. (McMorran) Essentially, yes. Although, the pumps do
12 contribute to that as well.

13 Q. And, so, how much gallonage flows at that fire
14 protection rated flow?

15 A. (McMorran) It's 180 minutes times 3,000, do the math.

16 Q. Okay. Three times 18 is what, 56?

17 A. Who's got a calculator?

18 Q. Fifty-four.

19 MR. GEARRALD: Thought you'd never ask.

20 MR. RATIGAN: You want a dolly for that
21 thing?

22 MR. GEARRALD: Yes. Just for you.

23 (Atty. Gearrald handing calculator to
24 Witness McMorran.)

1 **BY THE WITNESS:**

2 A. (McMorran) 540,000 gallons total.

3 BY MR. RATIGAN:

4 Q. Okay. And, when you draw upon -- when there's a call
5 for fire flow, does it draw upon the entire system, so,
6 it's drawing down all tanks? Or is it -- or is fire
7 flows might be drawing upon only one tank?

8 A. (McMorran) It depends on where the point of demand is.
9 We have a couple subsidiary pressure zones, water can
10 flow in, they're not going to flow out. So, it
11 depends.

12 Q. And, what are the sizes of the four tanks?

13 A. (McMorran) The big one's a million gallons, I can't
14 guarantee this is right, because I'm doing it from
15 memory. I'm going to say a million, one's a half a
16 million, one's three-quarter million, and the other one
17 is --

18 A. (Walsh) The other one is half a million.

19 A. (McMorran) -- whatever the difference is. Another half
20 a million. Okay. Thanks.

21 Q. And, so, when you have a fire demand like that, you're
22 drawing down, what, 50 percent of a tank maybe,
23 something like that?

24 A. (McMorran) Again, it all depends on where the demand is

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 relative to the tanks.

2 Q. Do you have any sense of what type of drawdowns you've
3 seen historically in tanks from fire demand situations?

4 A. (McMorran) That's difficult for me to answer. From
5 memory, I'm going to say, roughly, the biggest example
6 is the beach fire --

7 Q. Right.

8 A. (McMorran) -- back in 2010. And, I'm going to say we
9 probably dropped the Glade --

10 (Court reporter interruption.)

11 **CONTINUED BY THE WITNESS:**

12 A. (McMorran) -- Glade Path Tank, which is a half million
13 gallon tank. I think we used on the order of 50
14 percent of its volume.

15 BY MR. RATIGAN:

16 Q. And, that would be really as dramatic a demand as you
17 would ever imagine seeing from that fire?

18 A. (McMorran) It's the biggest one that I've ever
19 experienced.

20 MR. RATIGAN: Okay. Nothing further.

21 Thank you.

22 CHAIRMAN IGNATIUS: Thank you. Mr.
23 Gearrald.

24 MR. GEARRALD: Thank you.

1 BY MR. GEARRALD:

2 Q. Mr. Dixon, talking about "tiered block rates" as the
3 Commission has asked about, you are the Director of
4 Rates and Regulation, of course, correct, for all three
5 Aquarions, in the Aquarion family that you described?

6 A. (Dixon) Yes, I am.

7 Q. And, you're familiar with the fact that, in
8 Massachusetts, the Company for a number of years has
9 had inclining block rates, correct?

10 A. (Dixon) We put those in as of three or four years ago,
11 I can't quite remember now. But they have been around
12 for a few years, yes.

13 Q. And, actually, in a recent rate case in Massachusetts,
14 there was some challenge from communities as to where
15 the block -- the block cut-offs were, isn't that
16 correct?

17 A. (Dixon) Not too much. There wasn't much in this rate
18 case about those block cut-offs.

19 Q. The Company -- however, the Company's position on
20 those, the Commission, the DPU in Massachusetts upheld
21 those rates, the block rates?

22 A. (Dixon) They did. They did.

23 Q. So, the Company has experience with that. And, as you
24 testified, that was actually proposed back in the 2008

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 rate case as part of your testimony, correct?

2 A. (Dixon) Yes, it was.

3 Q. And, the theory behind inclining block rates is that
4 you will separate out customers with the higher
5 consumption and they would pay a higher rate than those
6 with lower consumption, correct?

7 A. (Dixon) Once you hit a certain level of usage, the rate
8 goes up, yes.

9 Q. And, so, that would actually reward those who save on
10 consumption, correct?

11 A. (Dixon) Their bill would be lower.

12 Q. Yes.

13 A. (Dixon) Yes.

14 Q. And, have you explored, in response to the Commission's
15 charge in this letter, the prospect for increased use
16 of water in the Aquarion New Hampshire system that may
17 occur from the Smutty Nose Brewery coming to Hampton?

18 A. (Dixon) I've seen some information on it, in terms of
19 what their expected usage was. I can't remember those
20 figures now.

21 Q. Have you analyzed that?

22 A. (Dixon) Not much more than reading what I've seen come
23 across my e-mail.

24 Q. And, actually, that information was provided by me to

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 your counsel, and then, in turn, was provided to you?

2 A. (Dixon) I'm not sure how it got to me, but it got to
3 me, yes.

4 Q. Okay. In any event, you've seen some of the statistics
5 for what the usage has been for Smutty Nose Brewery in
6 its location in Portsmouth, New Hampshire, correct?

7 A. (Dixon) I seem to recall that, yes.

8 Q. And, that would constitute a large water user,
9 correct?

10 A. (Dixon) If that customer actually comes in and uses
11 that water, I don't know what you consider a large
12 amount of water. I think, when we were looking at it,
13 we figured it out to be somewhere around 10 to 12
14 customers, if we were looking at residential customers.
15 And, again, I'm going back from my memory here. But it
16 is --

17 MR. TAYLOR: If I could just, I think
18 the Company needs to be careful about providing
19 consumption information for a customer.

20 MR. GEARRALD: Well, the Company has
21 been asked by the Commission to look into tiered blocks.
22 And, I've offered that information has been provided to
23 Mr. Dixon. And, I merely wanted to ask him -- show him
24 the data that he said he's received, and ask him "is that

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 going to be a significant customer to their system?"

2 CHAIRMAN IGNATIUS: And, that's fine. I
3 think Mr. Taylor is right, though. Customer data is not
4 something that should be publicly disclosed. And, usage
5 totals or patterns can sometimes be sensitive information.
6 So, --

7 MR. GEARRALD: Yes. Actually, ma'am
8 Chairman, this is information I have received and passed
9 along through a Right-to-Know Law request to the City of
10 Portsmouth.

11 CHAIRMAN IGNATIUS: All right.

12 MR. GEARRALD: Mr. Dixon, I'm --

13 (Atty. Gearrald distributing documents.)

14 WITNESS DIXON: I do remember seeing
15 this.

16 BY MR. GEARRALD:

17 Q. And, I would ask you, assuming that this operation now
18 in Portsmouth comes to Hampton, at least on the figures
19 that are provided here under this Right-to-Know Law
20 request, this customer would be a significant user,
21 isn't that correct?

22 A. (McMorran) Define "significant". It would be one of
23 our larger ones.

24 Q. Yes.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 A. (McMorran) If memory serves me right, it's about 60,000
2 gallons a month, about equivalent to 10 or 12 domestic
3 services.

4 Q. Nevertheless, it would be a significant customer to
5 Aquarion, correct?

6 MR. TAYLOR: If I may, I don't want to
7 interrupt, but I just do want to point out that there is
8 quite a bit of -- there is some data attached here, and I
9 don't believe they've had an opportunity to absorb it.
10 So, --

11 CHAIRMAN IGNATIUS: Well, can we just
12 cut to the chase? Your point is, this will be a large
13 user, I take it. And, let's not squabble over what
14 "significant" means.

15 MR. GEARRALD: In the Company, right.

16 CHAIRMAN IGNATIUS: Is that a fair
17 question? Will it be a large user?

18 WITNESS DIXON: Yes.

19 CHAIRMAN IGNATIUS: Thank you.

20 BY MR. GEARRALD:

21 Q. And, however, the Company has not analyzed this yet?

22 A. (Dixon) I have looked at it in terms of the level of
23 usage. I actually remember going through adding up a
24 year's worth of usage on this customer. I don't know

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 if I did one year or everything else here, but I
2 remember looking at it. And, calculated the additional
3 consumption that would come in. I don't remember the
4 figure, but I did look closely at it.

5 Q. And, has the Company already been approached about this
6 particular user coming onto its system?

7 A. (McMorran) Yes.

8 Q. And, do you have an agreement with Smutty Nose yet
9 about what rates they would be charged?

10 A. (McMorran) They would be charged our current tariff
11 rates.

12 Q. Whatever that may be?

13 A. (McMorran) Uh-huh.

14 MR. GEARRALD: Unfortunately, now that
15 we're into this, I have Mr. Welch to give us an idea of
16 when that customer is expected to come on line, if I might
17 just provide that answer, since --

18 CHAIRMAN IGNATIUS: Well, I don't know
19 why we're getting into it. I'd like an offer of proof as
20 to what the information from Mr. Welch has to do with the
21 questions that are in the December 17th letter?

22 MR. GEARRALD: Madam Chairman, we're
23 expecting that there will be another three years,
24 according to Mr. Dixon's testimony, before this issue

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 comes before the Commission again, because that's the rate
2 cases, the frequency of rate cases. We have a company
3 who's been challenged from the get-go in this rate
4 petition to address the fact of declining consumption in
5 the system, and how to react to it so that customers are
6 not penalized for savings by getting higher bills. And,
7 one of the answers could be, if you have tiered block
8 rates, so that it rewards those for saving, and charges
9 those who are using more, then that's one approach.

10 This is, in fact, already used in
11 Massachusetts by the Company for several years. It has
12 been proposed back in 2008, but it's not being proposed at
13 this time. Our position is that that is not sufficient to
14 meet the challenge, that we're into same old/same old.
15 That it's not adequately responding to the fact that
16 \$214,000, or 20 percent of the revenue requirement here
17 goes to the penalization of customers for saving.

18 CHAIRMAN IGNATIUS: I understand that,
19 and that was a very good closing argument. But I'm not
20 sure I get what that has to do with the date that Smutty
21 Nose may or may not come to Hampton?

22 MR. GEARRALD: The feasibility has to do
23 with how well the Company is responding to the challenge
24 of the Commission, knowing that a customer of a large

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 magnitude is coming in a short amount of time. And, I was
2 going to offer that Mr. Welch would testify that this
3 company is probably going to be here and be built in late
4 fall of this year. And, if that could be --

5 CHAIRMAN IGNATIUS: I don't see a basis
6 to call Mr. Welch to the stand for that.

7 MR. GEARRALD: Well, I was going to
8 offer that, since he's still here, as a fact he would
9 testify to.

10 CHAIRMAN IGNATIUS: I don't think it's
11 relevant to the question of the Company's exploration of
12 tiered rates.

13 MR. GEARRALD: It goes to the -- madam
14 Chairman, it goes to the level of effort on the part of
15 the Company, how well the Company is responding to the
16 Commission's questions, about a very troublesome point to
17 us in this rate case.

18 CHAIRMAN IGNATIUS: All right. Well,
19 we'll accept your offer that it could be as soon as the
20 Fall of 2013.

21 MR. GEARRALD: Thank you.

22 BY MR. GEARRALD:

23 Q. Mr. Dixon, going to the health of the Connecticut
24 company in relation to the benefit to New Hampshire

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 consumers, it certainly is the case that the short-term
2 borrowing that the Aquarion Water Company does in New
3 Hampshire, it borrows from Aquarion Company, which is
4 the parent for all three companies, isn't that correct,
5 of Massachusetts, Connecticut, and New Hampshire?

6 A. (Dixon) The borrowings actually happen between Aquarion
7 Water Company of Massachusetts and Aquarion Water
8 Company.

9 Q. Yes.

10 A. (Dixon) There are no borrowings in this rate case.
11 Every bit of debt that's part of this rate case is
12 external borrowings. There are no internal pieces of
13 debt that are part of this case.

14 Q. But you have indicated that Aquarion, in answers to
15 data requests, that Aquarion Water Company of New
16 Hampshire borrows on a short-term basis from Aquarion
17 Company, which, in turn, borrows the funds from
18 Aquarion Holdings, LLC, correct?

19 A. (Dixon) There is a chain, that the utility is able to
20 borrow up from Aquarion, when needed. We do that in
21 instances where we're trying to finance a certain
22 amount of capital investment, but the Company's so
23 small that we can't go out and get external financing.
24 So, we use short-term debt until we're able to actually

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 secure a long-term financing.

2 CHAIRMAN IGNATIUS: Mr. Gearrald, what's
3 the question that this testimony is in response to?

4 MR. GEARRALD: This panel has testified
5 that the growth of the company in Connecticut has benefits
6 for the customers in New Hampshire, in terms of overall
7 health, and in terms of sharing of expenses and so forth.
8 That would be the relevance.

9 CHAIRMAN IGNATIUS: And, so, tell me
10 again why questions about internal borrowing are
11 responsive to questions about -- the testimony about
12 acquisition of new customers and other affiliated
13 companies?

14 MR. GEARRALD: It shows, madam Chairman,
15 that this is part of one big family, as has been -- that's
16 the term "family of companies" that was used by this
17 panel, which is relevant for looking at the picture that
18 Aquarion Water of New Hampshire poses. It's not just a
19 small company. They have relations that make them a much
20 bigger company.

21 CHAIRMAN IGNATIUS: So, is it relevant
22 to the final question in the letter?

23 MR. GEARRALD: Yes.

24 CHAIRMAN IGNATIUS: All right. Please

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 try and -- you were the one who said "let's stick to the
2 letter". So, I'm going to hold you to it.

3 MR. GEARRALD: Okay.

4 CHAIRMAN IGNATIUS: Please continue.

5 BY MR. GEARRALD:

6 Q. In terms of acquisitions in Connecticut, I believe
7 Bruce Silverstone, the Vice President of Corporate
8 Communications, has issued a report on Aquarion's
9 behalf that indicated that last year Aquarion purchased
10 and integrated more than 27 new water systems in
11 Connecticut, adding over 10,000 customers. Is that
12 correct?

13 A. (Dixon) That's an accurate statement, yes.

14 Q. An accurate statement. And, Aquarion has been
15 following its strategy of growth through acquisition by
16 purchasing water companies throughout Connecticut, with
17 the goal of creating, wherever possible, an integrated
18 and unified system, is that correct?

19 A. (Dixon) Yes, in Connecticut.

20 Q. Yes. And, the purchase -- there was a purchase of
21 United Water Connecticut's operations, which is
22 consistent with a strategy of growth through
23 acquisition, correct?

24 A. (Dixon) Yes.

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 Q. And, just before I forget, in one of your data
2 requests, I believe it was Staff 1.7, you indicated
3 that for much of the year Aquarion Water Company New
4 Hampshire actually had a notes receivable from its
5 parent, is that correct?

6 A. (Dixon) Yes. When there's extra cash available at the
7 New Hampshire subsidiary, that cash is loaned back
8 Aquarion Company.

9 Q. Which is the parent of Aquarion Massachusetts and
10 Aquarion Connecticut, correct?

11 A. (Dixon) Yes.

12 MR. GEARRALD: Thank you.

13 CHAIRMAN IGNATIUS: Thank you.

14 Mr. Eckberg, does the OCA have any questions?

15 MR. ECKBERG: Not to my knowledge. But
16 I would prefer to defer to Attorney Hollenberg, who
17 apparently had stepped out for a moment.

18 CHAIRMAN IGNATIUS: All right. That's
19 fine. And, why don't we --

20 MS. HOLLENBERG: I do have a couple
21 questions.

22 MR. ECKBERG: And, there we have the
23 answer.

24 CHAIRMAN IGNATIUS: And, take a moment

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 to get composed.

2 MS. HOLLENBERG: Thank you.

3 CHAIRMAN IGNATIUS: I didn't mean to
4 spring it on you. In fact, if Staff has questions, you
5 want to go ahead --

6 MS. BROWN: I can just state that Staff
7 has no questions for this panel, unfortunately.

8 MS. HOLLENBERG: I just have a few
9 questions.

10 BY MS. HOLLENBERG:

11 Q. Mr. Dixon, you were asked on, just a moment ago, about
12 "tiered block rates". Do you recall those questions?

13 A. (Dixon) I do.

14 Q. Is it possible that tiered block rates could incent
15 greater conservation?

16 A. (Dixon) They certainly do.

17 Q. And, so, that could cause less recovery of revenues as
18 a result of greater conservation?

19 A. (Dixon) Yes.

20 Q. Thank you. Mr. Walsh, you were asked about public --
21 various questions about public fire protection and
22 access to fire protection. If a public fire protection
23 customer pays less than 100 percent of the cost of its
24 access to that fire protection, is there a way that the

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 Company can deliver less than 100 percent of that fire
2 protection capacity?

3 A. (Walsh) No, there is not.

4 Q. Thank you. And, Mr. Dixon again, you were asked about
5 some systems in Nashua and Manchester. Do you recall
6 those questions?

7 A. (Dixon) I do.

8 Q. What do you -- do you know anything about those systems
9 in Nashua and Manchester?

10 A. (Dixon) Very little.

11 Q. Do you know how they calculate their rates?

12 A. (Dixon) I do not.

13 Q. Thank you. Okay. And, in terms of doing tiered block
14 rates, Mr. Dixon, would you do that after doing a cost
15 of service study?

16 A. (Dixon) That's probably the best time to do it.

17 Q. Uh-huh.

18 A. (Dixon) Because what you're trying to do with that cost
19 of service study is make sure, you know, that the costs
20 are going to the cost-causers. And, you're looking at
21 a lot of data at the same time, and you're trying to
22 make sure that, you know, you're not arbitrarily trying
23 to shift something away from the residential to the
24 commercial. And, the revenue requirements for each

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 classes are designated based on that cost of service
2 study. So, you would look at it at that time.

3 Q. Because it's important that one class not subsidize
4 another class?

5 A. (Dixon) Yes.

6 MS. HOLLENBERG: Thank you. No further
7 questions.

8 CHAIRMAN IGNATIUS: Thank you.

9 Ms. Brown, you had no questions?

10 MS. BROWN: That's correct.

11 CHAIRMAN IGNATIUS: All right.

12 Questions from the Commissioners?

13 CMSR. HARRINGTON: Yes. Let's see.

14 I've got a few here.

15 BY CMSR. HARRINGTON:

16 Q. Okay. There was discussion in the letter and also in
17 some of your responses on the planning and how much
18 input the Town has from customers. I'm trying to get a
19 little bit more information on the planning. I mean,
20 it's one thing to sit down with somebody and say "This
21 is our proposal. This is what we're going to do." But
22 I'm wondering how interactive that is. And, by that, I
23 mean does the Company put out something like "Here's a
24 plan we're looking at to approve this portion of the

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 system, this is what you're going to get as a benefit;
2 but, be advised, this is what we estimate the cost is
3 going to be"?

4 A. (Dixon) I'll speak briefly to the WICA process. And,
5 when we file our applications at the end of October of
6 every year, there are three years' worth of capital
7 projects that are in that proposal. The parties are
8 invited to participate. We present what the ultimate
9 resulting surcharges would be if we actually completed
10 that, those three years' worth of work. So, there's
11 every opportunity at that point for those parties to
12 participate.

13 Q. So, you say "opportunity". Did you get feedback that
14 said "Okay, we understand what you're doing, we think
15 it's a good idea, and we understand it will be an
16 increase in cost, but that's okay with us, the benefit
17 exceeds the cost"?

18 A. (Dixon) I don't think I got that direct affirmation,
19 but I didn't hear anything to the contrary. I believe
20 OCA has participated in the WICA process, I believe the
21 Towns have intermittently in the different filings
22 we've had.

23 Q. But you say "intermittently", but I thought it was
24 stated that you meet at least, if not more than, once a

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 year with town managers, selectmen, and fire chiefs?

2 A. (Dixon) Oh, this is purely on the WICA process that I'm
3 speaking to.

4 Q. Okay.

5 A. (Dixon) So, they're invited to participate. Whether
6 they do or not is up to them. But that's separate and
7 distinct from I think what Mr. Walsh was talking about,
8 in terms of the individual meetings.

9 Q. Okay. Well, at those individual meetings, does the
10 WICA things come up? What I'm trying to get at is,
11 does the Town have a good idea of "this is what we're
12 planning on spending above normal operating
13 expenditures over the next year", whether it's in WICA
14 or in some other form, "this is why we think it's a
15 good idea, and -- but we want you to know what the
16 price is going to be for that and get your position on
17 it"?

18 A. (Walsh) Do you want -- okay.

19 A. (McMorran) Go ahead.

20 A. (Walsh) So, the meetings with the town managers and the
21 North Hampton Water Commission, we do provide them with
22 the cost of the capital projects. And, we do discuss
23 the benefits, and the reasons why we're replace --
24 especially with respect to main replacements, we're

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 describing whether it's a fire flow issue or whether
2 there's a lot of main breaks. So, that's the type of
3 information we share at those meetings. And, I believe
4 we are making it clear that we're looking for some
5 input from them.

6 Q. So, from your position then, they may not always
7 100 percent agree, but they certainly should know of
8 the capital improvements you're projecting and what the
9 costs would be and the effect on rates?

10 A. (Walsh) The first two components, yes. The effect on
11 rates, Carl, correct me if I'm wrong, have we described
12 that?

13 A. (McMorran) No, I don't think so.

14 Q. So, you tell them it's going to cost X amount of
15 dollars, and no one gets to the next logical step of
16 "and that will cost your average customer \$3.00 a
17 month", or whatever the case may be?

18 A. (McMorran) We describe, I guess, how -- you know, rates
19 are dependent on a lot of other things, besides just
20 the capital improvements. So, from my -- in my
21 position, it's hard to predict what they are.

22 A. (Dixon) I know, at least the part that I'm involved in
23 with the WICA process, we certainly do address the
24 impact of rates of those three years' worth of

[WITNESS PANEL: Dixon~Walsh~McMorran]

- 1 improvements. And, if we talk about what, you know,
2 what improvements are in the WICA Program, our capital
3 budget in New Hampshire is approximately \$1.5 million
4 per year roughly. And, I believe the WICA Program
5 covers 900 to a million dollars per year of that. So,
6 we're not submitting as part of that process just a
7 small piece of the budget, we're submitting the big
8 items. And, the things that aren't really in there are
9 -- what are the other pieces?
- 10 A. (Walsh) Any source water improvements.
- 11 A. (Dixon) But, certainly, as part of the WICA process, we
12 do address the rate impacts associated with certain
13 levels of capital investment.
- 14 A. (Walsh) It's one of the benefits, I think, of the WICA
15 process. The structure around it requires us to do
16 exactly what Troy is referring to, to let people know
17 what we're planning to spend, and it shows the rate
18 impact.
- 19 Q. Okay. And, this is sort of an aside to this, but I
20 think it kind of fits in. Mr. Welch spoke a couple of
21 minutes ago there, and on a number of occasions he sort
22 of put up this idea of "why don't you use like a
23 bonding technique, like a town would be, if they're
24 going to go out and buy a fire truck, and they pay for

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 it in five years, and it's paid off, and they don't
2 continually pay for it for 20 years." What's your
3 response to his proposal or his idea?

4 A. (Dixon) Well, I think the way we finance improvements
5 in our rate base is a little bit different. We finance
6 with debt and we finance with equity. When we finance
7 with debt, these are generally -- they're not --
8 there's no principal payments on debt. These are
9 20-year issues, where we pay principal only, we -- I'm
10 sorry, interest only, and we refinance at the end of 20
11 years, because the need for that debt does not go away.
12 If we had principal payments, we'd simply have to go
13 borrow some more money to pay for the principal. So,
14 but behind all that, we have 60 percent, roughly 60
15 percent debt in the Company right now, which is already
16 a significant level. We can't just go and finance
17 everything with debt. It has to be financed with some
18 combination of debt and equity. So, it's not as simple
19 as saying "I'll go finance another couple million
20 dollars and put that into infrastructure." We have to
21 raise it with debt and equity. And, raising it on the
22 equity side can be a challenge. You know, we talk
23 about cash flow from WICA. You know, WICA is enabling
24 us to spend more money on infrastructure, but we have

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 to finance that somehow. We can do some with debt, the
2 rest has to come with equity. And, the way we finance
3 with equity is our earnings. And, if we're earning a
4 3.9 percent ROE, as we did in the test year, there's
5 not much money available to go and finance. So, how do
6 we do that? We haven't issued a dividend since
7 September of 2010. That's how we're financing, because
8 we can't dividend out any money. So, you know, if
9 you're talking about the idea of risk and how much risk
10 there is involved in this company as a result of, you
11 know, the WICA Program, I'd say there's some
12 significant added risk associated with it as a result
13 of the WICA.

14 So, cash flows, while it's nice that we
15 get a return on the plant when we put it in, we still
16 have to find a way to finance that plant. And, when
17 your equity is not growing due to, you know, really
18 depressed earnings, it becomes a challenge.

19 Q. Thank you. There was discussion about peak demand
20 being a little less than 5 million gallons a day, and
21 then the fact that the fires were basically not -- it
22 didn't seem like they weren't included, that the idea
23 of the fires -- the water source for the fires would be
24 the storage tanks. So, is it safe to say that that

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1 peak of 5 million, slightly less than 5 million gallons
2 a day, does not include water required to fight fires?

3 A. (McMorran) Yes.

4 Q. Okay. That's correct. Okay. And, what's your design
5 basis fire demand?

6 A. (McMorran) It's the 540,000 gallons over three hours
7 that we talked about with Mr. Ratigan's question.

8 Q. And, that's the basis, on the size of your tanks?

9 A. (McMorran) Yes. In part, yes.

10 Q. Okay. Now, there was some -- quite a bit of
11 discussion, I guess, on Smutty Nose Brewery, and
12 whether it's coming or whether it's not, and how much
13 water it would consume. It seemed like 60,000 gallons
14 a month, which was somewhere around what the discussion
15 was on. If you put that on an annual basis, it would
16 seem as if you have gone beyond your pumping capacity
17 of 5.2 million gallons -- no, I'm sorry, this is going
18 to be annual. Forget that. But, if you have something
19 like that, you said the 60,000 gallons was significant,
20 and it's going to push, not over, but towards that
21 peak. You have a peak of about 200,000 gallons a -- is
22 it 200,000 gallons a year -- a day extra, between your
23 peak and when you're pumping 5 million and 5.2 million,
24 is that correct?

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1 A. (Walsh) Yes.

2 Q. Okay. So, this is another thing that will eat part of
3 that up. And, again, I guess that gets back to that's
4 another reason where that planning needs to be done.
5 This is one entity. There could be a new housing
6 development or a new hotel in the planning and so
7 forth. So, I just think it reinforces the need for
8 this, you know, a five year peak demand plan, that's
9 constantly being updated, like once every year, you
10 look ahead and you adjust it down the road, so that you
11 don't get something like this comes in and goes "Oops,
12 if they build that, then we're not going to be able to
13 supply the water in time." And, you know, I think with
14 the -- the thing you always hear about, what's the
15 first thing everybody mentions is "jobs". And, if
16 someone cannot build something and create jobs, because
17 the water isn't there, then the water company is not
18 going to be held in high esteem for too long. So, I
19 just think it reinforces the need for that type of
20 planning.

21 The other thing I wanted to touch on
22 briefly was this concept of "tiered block rates". And,
23 you know, the idea is, as you move, you know, the first
24 so many gallons you pay one rate, and then the next so

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 many more you have a higher rate, and it continues up.
2 Which, of course, that would encourage consumption, but
3 part of the problem is that your peak demand is not
4 being driven by your normal customers that's there all
5 year-round, it's being driven by the customer that's
6 only there in the summer. And, would you then
7 anticipate a second set of tiered block rates, one for
8 year-round customers and one for seasonal, because
9 they're not even going to -- they won't even reach the
10 second block, because, you know, the seasonal customer
11 may only be there for three months. There's kind of a
12 conflict there, how would you address that?

13 A. (Dixon) Well, I think, when you're looking at
14 specifically those seasonal customers, you would set --
15 and right now we're billing those customers monthly,
16 and I already mentioned that those customers already
17 have a premium rate that they're paying above everybody
18 else. If you were to convert them to tiered rates
19 instead, you would basically just have to set that on a
20 monthly basis. We're billing them monthly. So,
21 there's a certain amount they can hit in a month. It's
22 not as though we're billing them quarterly and they may
23 only be there one month. We're looking at a month at a
24 time. So, in that kind of case, it could work.

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 Q. Okay. And, you do that with, if you went to these
2 tiered block rates, then you'd have one set of tiered
3 block rates for year-round customers and a different
4 set for seasonal customers? If you use the same tier,
5 the seasonal customer may never make it to Tier 2,
6 simply because they're not there very long.

7 A. (Dixon) Well, but you're looking at that seasonal
8 customer in the span of one month. So, the tier only
9 triggers in the month. So, as long as they're there
10 for the month. You run into an issue if they're only
11 there for a week or two weeks.

12 Q. Okay.

13 A. (Dixon) But, as long as they're there for the month,
14 the signal will be there and they'll have --

15 Q. So, it wouldn't be an annual consumption, it would be a
16 monthly consumption?

17 A. (Dixon) No, it would be monthly.

18 Q. Okay. And, one of the other things, you know, is that
19 -- I think you people have said this before, in that,
20 you know, you're really having this being driven by
21 seasonal rates, and that your -- if you look at that
22 chart that's now been sent around us a couple different
23 times, you have an average daily rate, which is, you
24 know, quite a bit lower than your seasonal peak. And,

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 so, that's what's driving that. And, you can only, you
2 know, you can only go so much on the seasonal peak, as
3 far as making people pay extra, then the costs start to
4 get prohibitive for those people that are there for a
5 week or a month or whatever. But is there any attempt
6 by the Company to look into some type of -- at least
7 investigate whether there's a cost-effective way, and
8 what I'll call, we use in the electric world, is
9 "peak-shaving". By that I mean, you know, you go into
10 somebody's condo that's rented only in the summer, or a
11 hotel or cottages or whatever, and say I'll do a water
12 audit. And, these are the things you can do to reduce
13 usage of water by, you know, people take a lot of
14 showers in the summertime, especially when they come
15 back and forth from the beach, well, if you put a new
16 low-flow showerhead on your outside shower, on your
17 inside shower, change the toilets to low-water, you
18 know, whatever the case may be. You find that there's,
19 you know, leaks in whatever they're doing, and come up
20 with a way, I'm just looking, those are ideas that
21 could be done. Has the Company looked into the
22 possibility of offering some type of a service like
23 this? Much like is done on the energy level, where
24 someone comes in and does an energy audit of someone's

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1 house and says "If you do these things, it will save
2 you a lot of money." And, it has the advantage,
3 especially on these summer customers, because they're
4 driving a lot of your costs by peak demand, that, for
5 every gallon they save, everybody in the system saves
6 money. Do you have a program like that?

7 A. (McMorran) Not in that level of detail, no.

8 Q. Would you consider looking at something like that,
9 doing water audits of seasonal customers?

10 A. (McMorran) The idea has come up, but we've not pursued
11 it, because it's going to cost -- costs the Company and
12 a number of customers, and somebody -- and we've got to
13 pay somebody to do it, obviously.

14 Q. But, I mean, it's obviously one of those things you
15 look at and say "let's just not go out and do it
16 gung-ho, let's do an analysis and determine if
17 something like that could be cost-effective, and to
18 what level it would be cost-effective."

19 A. (McMorran) Right.

20 Q. Have you considered -- apparently, you haven't done
21 that type of analysis.

22 A. (McMorran) Well, we haven't gone as far as employing
23 somebody to go out and do site-by-site surveys.

24 Q. My point was, have you looked at whether doing

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 site-by-site surveys would be cost-effective overall to
2 the customer? Not doing them, but just doing the
3 analysis. "Is this program a good idea? Would it pay
4 for itself?"

5 A. (McMorran) Not since I've been here.

6 CMSR. HARRINGTON: Okay. Maybe that's
7 something you should look at then. Thank you.

8 CHAIRMAN IGNATIUS: Commissioner Scott.

9 BY CMSR. SCOTT:

10 Q. Following up on the same line, I was curious that
11 seasonal customers, are you looking -- this is an
12 assumption, I assume there's a fair amount of rental
13 property that goes on during the summer. Are those the
14 seasonal people or are you talking about people who
15 summer in the area?

16 A. (McMorran) It's a mix of both. A lot of them are, you
17 know, the weekly rentals, so to speak. And, then,
18 there's other ones that, you know, a family owns --
19 owns a cottage, and they come up there on the weekends
20 over the summer. So, it's a mix. I'm not sure exactly
21 what it is, but probably pretty close to 50/50.

22 Q. I just imagine, if I'm renting for a week, it would be
23 difficult to have a price signal that would impact
24 me --

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 A. (McMorran) The renter is not going to see it at all.

2 Q. Exactly.

3 A. (McMorran) The landlord is going to see it. So, it's
4 an incentive to go in and, you know, put in the
5 water-efficient fixtures and make sure they don't have
6 any leaks and things like that, but it's going to hit
7 the landlord, not the renter.

8 Q. Right. Regarding planning in general and that
9 discussion, I was going to assume, but I always hate to
10 assume, so, I'll ask the question. I assume you work
11 with the municipalities to synergize, you know, if
12 there's planned roadwork, if there's -- you know,
13 they're going to dig up the sewer, it seems like a lot
14 of opportunities if you all work together, that the
15 street may be being teared up, and, "Gee, all things
16 being equal, I need to replace that section anyways,
17 let's do it at the same time and share costs." Does
18 that happen?

19 A. (McMorran) Yes. Actually, our current main replacement
20 projects are designed with that model. Where we're
21 doing the mains first, the towns come in later and
22 install the sewer work.

23 (Court reporter interruption.)

24 **BY THE WITNESS:**

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 A. (McMorran) Replacing the mains as we speak, well, now
2 they're done for today, but -- the town's coming in
3 after Labor Day to replace the sewers, and we're
4 sharing the paving costs, the final paving costs.

5 BY CMSR. SCOTT:

6 Q. Great. Thank you. And, lastly, going back to our
7 questions, and I heard the comment about public policy
8 and, for fire protection, the last thing you want to do
9 is make it so somebody doesn't want to use the water to
10 put out a fire, and I understand that. My question I
11 guess is, is the Company aware, the utility aware of
12 any place where they do charge for the extra use? And,
13 the reason why I ask is I just wonder that, when you
14 have a fire, you have insurance -- most, a lot of
15 people have insurance, to the extent that there are
16 costs associated, I'm wondering if that increment would
17 be covered by insurance? I'm wondering if that's
18 something the Company has seen used before?

19 A. (McMorran) An incremental cost for the volume of water?

20 Q. Yes. So, let's say there is a fixed cost for having
21 the -- obviously, having the fire protection, the fire
22 hydrants, the system there, and hopefully it's never
23 used, so that's, you know, why you have a fixed cost,
24 you would have some charge, maybe not based on an exact

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 volume, as you mentioned, because it's pretty hard to
2 know exactly, but there's a charge for -- a fire charge
3 or something like that. Are you aware that's in
4 practice anywhere?

5 A. (McMorran) I'm not aware of it. I don't know about you
6 guys?

7 A. (Dixon) I've never seen it.

8 A. (Walsh) And, I've never seen it either.

9 CMSR. SCOTT: Thank you. That's all I
10 have.

11 BY CHAIRMAN IGNATIUS:

12 Q. The question about -- Commissioner Harrington asked
13 about possible ways to help do some peak-shaving
14 reminded me of some testimony about how you offer rain
15 barrels at a discount.

16 A. (McMorran) That's correct.

17 Q. And, I assume that's so that people can collect rain
18 water and use it to water their garden or something
19 like that?

20 A. (McMorran) Yes.

21 Q. Could that be a vehicle for a similar sort of offering
22 of water conservation attachments that people could
23 purchase at a discount, so that at least a fairly low
24 cost way of helping out with low-flow showerheads and

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 faucet attachments, that sort of thing?

2 A. (McMorran) It could be. We don't currently do that, at
3 least not in New Hampshire.

4 Q. Do any of the affiliated companies undertake water
5 conservation education programs or actual helping out
6 with water audits or making water attachments
7 available?

8 A. (Dixon) I know we have offered leak detection kits in
9 the past. And, I thought for sure we had done that in
10 New Hampshire in the past. You don't recall that?

11 A. (McMorran) Oh, leak detection kits, yes. We offer
12 those for free.

13 A. (Dixon) We offer those. We do things, such as water
14 saving tips that we put in our bills and bill stuffers,
15 there are things on our website about how people can
16 save water. We do have a Conservation Committee in
17 Connecticut that I believe all of the things they work
18 on are for all three of our regulated affiliates. So,
19 there is work that's out there. I just don't know the
20 specifics of what's getting pushed down to New
21 Hampshire. But there is work that's being done. And,
22 you know, water audits, I've heard that a lot as well.
23 So, I know they're being done. But I can't speak
24 specifically to New Hampshire.

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 A. (McMorran) The local Home Depot in North Hampton
2 promotes water conservation fixtures pretty
3 effectively, I think.

4 Q. The reason that you didn't pursue tiered rates in this
5 case, unlike the last rate case, as I recall, you said
6 that it's hard to do -- you withdrew it in part because
7 it's hard to do tiered rates when you don't have
8 monthly billing. But you've proposed monthly billing
9 in this case, haven't you?

10 A. (Dixon) We only have monthly billing for the seasonal
11 customers. So, that's 900 of the 9,000, they're billed
12 on a monthly basis.

13 Q. All right. I must have misunderstood. There is -- let
14 me just be sure I know the right answer. In this case,
15 you are not proposing to go to monthly billing for all
16 customers?

17 A. (Dixon) No.

18 Q. All right. Then, I misread something. Thank you for
19 that. And, you also said that you would best be able
20 to evaluate tiered -- an inclining block rate through a
21 cost of service study. And, you didn't prepare a cost
22 of service study for this case, correct?

23 A. (Dixon) That's correct.

24 Q. Why not?

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 A. (Dixon) We had done one in 2005. So, you know, one,
2 they're costly. So, we don't want to take one on every
3 rate case. In the past, we've had rules of thumb where
4 we do them every ten years or something like that.
5 That's what we've used in Connecticut, for a cost of
6 service or a depreciation study, because they do have
7 that cost. Unless there's something significant that's
8 changed, in terms of our composition of plant or, you
9 know, some composition of the customers has changed
10 significantly, we don't think it's going to tell us
11 much that's new. So, we don't want to do that every
12 rate case, because we don't think there will be much of
13 an impact.

14 So, at this point, you know, three cases
15 away, we're about at the ten-year mark. So, it makes
16 sense that we would come in and do one at that point.

17 Q. And, when you were asked about what the Company's
18 long-term plan for rates was, what I heard was what
19 your plan for recovery was. You described the
20 three-year rate cycle for rate cases --

21 A. (Dixon) Uh-huh.

22 Q. -- excuse me, three-year cycle for rate cases and the
23 WICA. But I didn't hear anything about how you were
24 planning for what you imagine the rate trajectory would

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 be. Do you forecast where your rates are going?

2 A. (Dixon) We do go through a five-year planning process
3 every year, and that's where we map out where, you
4 know, where our particular rate cases might be, what
5 the capital expenditures are going to be. We assume
6 expenses for that five-year time span.

7 Q. You know the chart that Mr. Welch developed, it was
8 marked as "Exhibit 21", the chart of increases over the
9 last ten years or so. Do you anticipate rates to
10 continue at the rate that his chart shows?

11 A. (Dixon) I'd like to think not, but you don't -- I don't
12 mean to be flip about it, but you don't know what you
13 don't know. If three years ago you had told me that
14 property taxes were going to go up 42 percent by the
15 time I file my next case, I'd say "42 percent, that's
16 ridiculous. How can that be?" I can't plan for those
17 type of events. We can plan for costs will go up with
18 inflation, and you can predict rates based on those
19 kind of variables. But, when those type of things hit,
20 there's not much you can do to be ready for them.

21 Q. So, what is the -- you said you have an expectation of
22 rates are going forward, you've looked at that. What
23 are you anticipating in the next, I don't know what
24 your planning horizon is, you said "five years", so,

[WITNESS PANEL: Dixon~Walsh~McMorran]

1 let's take five years?

2 A. (Dixon) I would hope that it's -- I feel like I'm
3 putting this -- I'm going out on a limb here, but I
4 would love to be in our next case and not have two
5 digits. I would love future rate cases to be below
6 10 percent. With the help of the WICA Program in
7 between rate cases, and then cost control measures,
8 that's a goal I'd love to meet. But, with variables
9 out there about some of these expenses that I can't
10 predict or what will that decline in consumption look
11 like tomorrow, it's very hard to commit to something
12 like that. But that's what I'd love to see it at.

13 Q. Well, we'd all love to see it. But you just told me
14 that you've done a five-year projection of rates, and
15 I'm asking what you think it -- what did that analysis
16 show you?

17 A. (Dixon) Well, that analysis builds in three percent
18 inflation rates on costs.

19 Q. All right. So, what did the analysis show you? A
20 three percent rate increase?

21 A. (Dixon) I don't know the -- no.

22 Q. All right. Then, what did it show you?

23 A. (Dixon) We're in the 10 percent range. I don't know
24 the exact number, but it's in the 10 percent range.

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 It's not a 20 percent rate increase, it's in the
2 10 percent range.

3 Q. And, is that in addition to a yearly WICA increase?

4 A. (Dixon) Yes. Much of that driven by three percent
5 assumptions on cost increases. So, three percent a
6 year, three-year basis, cost of capital, those are the
7 drivers behind it.

8 Q. How do you see a solution to the problem that you heard
9 loud and clear at the public hearing, of people feeling
10 very frustrated, the testimony you've seen from
11 Mr. Welch and Mr. Bean of being really concerned about
12 these increases? I get the feeling you just say "Well,
13 I wish it weren't the case, but there you go." And,
14 that that's sort of the end of your responsibility.

15 A. (Walsh) Okay. So, we've heard the towns, it's one of
16 the reasons why I meet with town managers and water
17 commissions and selectmen. And, we've heard loud and
18 clear that the rates are a concern, we heard loud and
19 clear at the public forum, and I think Carl can attest.
20 We -- one of the solutions for us is to focus
21 aggressively on cost control, and have our eye on a
22 couple years in the future, recognizing that, when some
23 costs go up, you do need to find a place to reduce
24 costs to offset that. I think Fred Welch was referring

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[WITNESS PANEL: Dixon~Walsh~McMorran]

1 to that. I completely agree with him. You have to
2 aggressively manage your costs. And, we have heard
3 everyone loud and clear on this issue.

4 CHAIRMAN IGNATIUS: All right. Thank
5 you. That's it for my questions. Is there any redirect,
6 Mr. Taylor?

7 MR. TAYLOR: Can you give me a moment
8 to --

9 CHAIRMAN IGNATIUS: Yes.

10 MR. TAYLOR: I realize we're pressed for
11 time, I just want to check with co-counsel.

12 (Atty. Taylor conferring with Atty.
13 Camerino.)

14 MR. TAYLOR: The Company has no redirect
15 at this time.

16 CHAIRMAN IGNATIUS: All right. Thank
17 you. Then, you're excused. Thank you very much. And, I
18 think that wraps it up, in terms of evidence today. It's
19 five minutes after 7:00. I greatly appreciate everyone's
20 willingness to be here after hours. And, I know we're
21 going to begin at 9:00 tomorrow. I encourage you to get
22 here ahead of time to get settled. And, if there are any
23 disputes about who's going, which witness is first or
24 second, try to work that out in advance.

1 And, is there anything else we need to
2 take up before we adjourn for the night?

3 (No verbal response)

4 CHAIRMAN IGNATIUS: Seeing nothing,
5 then, thank you. Drive safely. And, we'll see you at
6 9:00.

7 **(Whereupon the hearing was adjourned at**
8 **7:07 p.m., and the hearing to reconvene**
9 **on May 24, 2013, commencing at 9:00**
10 **a.m.)**