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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

May 24, 2013 - 9:08 a.m.
Concord, New Hampshire

DAY 2
MORNING SESSION ONLY

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

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24	RESERVED (Record request for Aquarion's Five Year Plan starting 2013)	27
25	Excerpts from the April 2013 <i>AUS Utility Reports The Investor's Edge, AUS Monthly Utility Report</i> , including the cover page & Pages 6, 10, 14, & 18	56
26	Aquarion Water Company's Response to Town of Hampton's Data Request 4-1 (03-27-13)	59
27	Document entitled "Comparison of Pauline Ahern Recommended Returns on Equity and Authorized Returns on Equity for Period 2000 to the Present as Contained in Response to Town of Hampton Request No. 4-1	64

P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: We are in the second
3 day of Docket DW 12-085, the Aquarion Water Company of New
4 Hampshire rate case. And, unless we have new counsel, any
5 parties here today who were not here yesterday to take an
6 appearance from?

7 (No verbal response)

8 CHAIRMAN IGNATIUS: It appears there
9 isn't anyone in that category. So, we won't bother with
10 taking appearances, and we can move straight to the
11 business at hand.

12 Do we have any issues to take up before
13 evidence? Ms. Brown.

14 MS. BROWN: I was just going to give an
15 outline of the witnesses that we expect today.

16 CHAIRMAN IGNATIUS: That would be
17 helpful. Thank you.

18 MS. BROWN: Because of the potential of
19 cost of equity dragging out and not wanting to impair
20 airplane travel, we thought we would do those witnesses
21 sooner, rather than later. So, the Company expects to
22 complete its panel of Troy Dixon, I think Attorney Taylor
23 was going to ask if you need the other two, Carl McMorran
24 and John Walsh, to be up on the panel, but dispense -- or,

1 address that panel, then move into Pauline Ahern, then
2 Dave Parcell, and then Mr. Landman, and Staff would be
3 available as witnesses after that. But I'll let Attorney
4 Taylor pick up.

5 CHAIRMAN IGNATIUS: All right. Thank
6 you.

7 MR. TAYLOR: I've spoken with the other
8 attorneys in this case, and they don't have additional
9 questions for Mr. McMorran or Mr. Walsh at this time. So,
10 I was going to suggest just recalling Mr. Dixon. To the
11 extent that the Commission has questions that Mr. Walsh or
12 Mr. McMorran are more or better equipped to answer,
13 they're here in the room, they have been sworn, and there
14 are -- they have microphones and, so, they could take
15 those questions. But my suggestion was to just bring
16 Mr. Dixon back up.

17 CHAIRMAN IGNATIUS: And, help me
18 remember where we are. So, no parties have any
19 questioning for any of the three? Or, are there some that
20 have questions for Mr. Dixon?

21 MR. TAYLOR: My understanding is that
22 yesterday, with respect to questions that related to the
23 questions that were set forth in the Commission's letter,
24 we've taken care of that, we've disposed of that. We can

1 bring Mr. Dixon back up to take questions on issues that
2 were in his testimony, to the extent that they weren't
3 covered in questioning yesterday. And, with respect to
4 Mr. Dixon and Mr. McMorran, my understanding is there are
5 no questions from the other attorneys on their testimony.
6 And, so, I didn't think it was necessary to bring them
7 back up.

8 CHAIRMAN IGNATIUS: Mr. Walsh and Mr.
9 McMorran.

10 MR. TAYLOR: I'm sorry, yes. Mr. Walsh
11 and Mr. McMorran. Thank you.

12 CHAIRMAN IGNATIUS: And, just a show of
13 hands, those who have further questions, questions for Mr.
14 Dixon on issues that were not part of the December 17
15 letter? Mr. Gearrald. Anyone else?

16 (No verbal response)

17 CHAIRMAN IGNATIUS: All right. And, we
18 may. And, so, it would be to finish up with Mr. Dixon on
19 anything in his testimony, obviously, nothing about ROE,
20 then we'd begin with the ROE witnesses?

21 MR. TAYLOR: Well, yes. I mean, to the
22 extent that there are any questions with Mr. Dixon,
23 obviously, a lot of those issues have been settled. But I
24 understand that it wasn't a settlement among every single

[WITNESS: Dixon]

1 party in the case. So, we can bring Mr. Dixon back up.

2 CHAIRMAN IGNATIUS: Okay.

3 MS. BROWN: And, I just wanted to note
4 that Attorney Ratigan had a meeting this morning. He
5 should be here 10:00 or after.

6 CHAIRMAN IGNATIUS: All right. Thank
7 you. Well, that's fine. I thin, if we think it's
8 relatively quick, that makes sense. If we think it's
9 going to take quite a while, my preference would be not to
10 do that, and to go rate straight to the ROE issues. But,
11 if -- Mr. Gearrald?

12 MR. GEARRALD: I don't think it's going
13 to be lengthy.

14 CHAIRMAN IGNATIUS: Great. All right.
15 Then, why don't we do that. That's fine.

16 MR. TAYLOR: The Company calls Mr. Dixon
17 to the stand.

18 (Whereupon **Troy M. Dixon** was recalled to
19 the stand, having been previously
20 sworn.)

21 CHAIRMAN IGNATIUS: Please proceed.

22 MR. TAYLOR: Yesterday we qualified
23 Mr. Dixon and put his testimony into the record. We don't
24 have any direct of Mr. Dixon at this time. And, so, we

[WITNESS: Dixon]

1 would make him available for cross-examination.

2 CHAIRMAN IGNATIUS: All right. Thank
3 you. So, Mr. Gearrard, questions.

4 MR. GEARRALD: Thank you. Good morning,
5 Mr. Dixon.

6 WITNESS DIXON: Good morning.

7 **CROSS-EXAMINATION**

8 BY MR. GEARRALD:

9 Q. Mr. Dixon, again, for the record, you are the Director
10 of Rates and Regulations for Aquarion Water Company?
11 Rules and Regulations? Or, Rates and Regulation?

12 A. Yes.

13 Q. Yes. Thank you. And, when the Company submitted its
14 original Petition in this matter, you were the
15 individual who spoke in favor in your testimony of a
16 10.25 percent return on equity, correct?

17 A. Yes, I was.

18 Q. However, you are not appearing in this matter as an
19 expert witness on cost of capital, are you?

20 A. No. We were trying to avoid the cost of an expert in
21 this case.

22 Q. And, in fact, the Company, as of that time, had not
23 retained a cost of capital consultant for the case, had
24 it?

[WITNESS: Dixon]

1 A. That's correct.

2 Q. What was presented instead in the Petition, if I can
3 draw your attention to that, -- do you have that in
4 front of you?

5 A. I do.

6 Q. -- was a Attachment TMD-1 that appears on Page 97 of
7 171.

8 CMSR. HARRINGTON: Excuse me, what
9 exhibit are you in?

10 MR. GEARRALD: This is the Company's
11 initial filing, Exhibit -- let me see what the number is
12 on that. This is Exhibit 5.

13 CMSR. HARRINGTON: Okay. Could you give
14 us the page again please?

15 MR. GEARRALD: Yes. It's at Page 97 of
16 171.

17 CMSR. HARRINGTON: Thank you.

18 BY MR. GEARRALD:

19 Q. And, Mr. Dixon, with reference to this particular
20 Attachment TMD-1, this was a sampling that you included
21 of authorized return on equity rates from other states,
22 correct?

23 A. Yes. At the time, it was the most recent ROE awards
24 that we were able to get our hands on.

[WITNESS: Dixon]

1 Q. And, with regard to this, this is some 16 ROEs,
2 correct?

3 A. We found 16 recent ones, yes.

4 Q. Eight of those 16 are less than 10 percent, correct?

5 A. Eight above, eight below, yes.

6 Q. And, the lowest one here is "9.6 percent"?

7 A. Yes.

8 Q. Now, the average of those comes out to 10 percent,
9 isn't that correct?

10 A. It does.

11 Q. Nevertheless, the Company is, in your testimony,
12 recommending 10.25 percent, right?

13 A. Yes. Just a couple months before we filed this case,
14 we had a fully litigated case in Massachusetts, which
15 is the third item on this list. That was our most
16 recent experience, where we received a ten and a
17 quarter ROE. So, that is why we proposed that figure.

18 Q. And, at that time, Ms. Ahern, who's going to be
19 testifying, was not involved in this case, correct?

20 A. No.

21 Q. Now, the Company, in its prior filing in this matter, I
22 just ask the Commission to take notice of Docket Number
23 08-098, had sought a figure for return on equity at
24 that time, correct?

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[WITNESS: Dixon]

1 A. Yes.

2 Q. And, in the petition that was filed, it's not
3 referenced in the order of the Commission, but in the
4 -- you were a participant in that particular case,
5 correct?

6 A. I participated in the case, yes. I was not the
7 director at that time.

8 MR. TAYLOR: Could we have a reference
9 to the page that Mr. Gearrard is showing to Mr. Dixon?

10 MR. GEARRALD: Yes. Schedule 4, Overall
11 Rate of Return, in the filing 08-098.

12 BY MR. GEARRALD:

13 Q. The particular return on equity sought in that case was
14 10.23 percent, correct?

15 A. I see that, yes.

16 Q. The Company's filing?

17 A. It is. I don't believe I sponsored it in that case,
18 but that is the number we put forward.

19 Q. And, Mr. Dixon, at that time, the ultimate settlement
20 figure that was adopted in the -- by the Commission was
21 9.75 percent, correct?

22 A. Yes, as part of an overall settlement.

23 Q. You testified yesterday, and I won't go through it
24 again, that the Company's, on a short-term basis,

[WITNESS: Dixon]

1 Aquarion Water Company New Hampshire does internal
2 borrowing from its parent, Aquarion Water Company,
3 correct?

4 A. Between long-term financings, it's a similar line of
5 credit that we would have with a bank or something, we
6 have that with our parent company.

7 Q. And, you also related, I believe yesterday, that the
8 parent company has borrowed from Aquarion Water Company
9 New Hampshire. But I would like to draw your attention
10 now on your testimony, your rebuttal testimony, that
11 has been marked number "7", on Page 2. There was a
12 question asked of you of "Does the Company agree with
13 Staff's recommendation about the Company's long-term
14 debt balance", this is beginning on Line 5. Do you see
15 that?

16 A. I do.

17 Q. In the course of this testimony, it is related that the
18 -- there was a \$4 million that was refinanced that was
19 a note that was taken out for \$4 million, a \$4 million
20 unsecured promissory note, is that correct?

21 A. Yes.

22 Q. Now, that was a note that was actually from Aquarion
23 Water Company New Hampshire to its parent company,
24 Aquarion Water Company, correct?

[WITNESS: Dixon]

1 A. Yes, it was.

2 Q. And, when the -- there was a borrowing that was
3 approved by this Commission, in May 14, 2012 -- I'm
4 sorry, May 24, 2012, the Commission approved an Order
5 25,369, in which the Commission approved the borrowing
6 for \$5 million, correct?

7 A. That sounds right, yes.

8 Q. And, of that \$5 million, 4 million of that was used to
9 pay off the \$4 million note from Aquarion Water Company
10 of New Hampshire to Aquarion Water Company, its parent,
11 correct?

12 A. Four million was to pay off the note, and there was an
13 additional million for future capital spending.

14 Q. Thank you.

15 MR. TAYLOR: I would just ask, to the
16 extent that Mr. Gearrard is going to show things to our
17 witness, that we be provided a copy as well, so we
18 understand what he's showing him, and we can keep -- take
19 it in context.

20 CHAIRMAN IGNATIUS: That's appropriate,
21 Mr. Gearrard.

22 MR. GEARRALD: Yes. Yes. We were just
23 referring to their own Exhibit 7, and I referenced the
24 page.

[WITNESS: Dixon]

1 CHAIRMAN IGNATIUS: All right.

2 BY MR. GEARRALD:

3 Q. Is it the case, Mr. Dixon, that the Company expects
4 that it can finance the capital spending budget for
5 2013 through 2015 through a combination of internally
6 generated funds and short-term borrowings, without the
7 need to raise external capital for the next few years?

8 A. What period did you reference?

9 Q. 2013 to 2015.

10 A. We will definitely be financing that spending through
11 that combination of internally generated funds and
12 borrowings. I don't know to the extent that that would
13 be long or short-term borrowings for that time span.
14 We usually start, and to the extent there's a need,
15 we'll borrow on a short-term from the parent. And,
16 then, once there is an amount accumulated, we would go
17 to the outside and borrow longer term.

18 Q. But the current plans for financing of capital
19 spending, you answered a Staff Data Request 1-10 that
20 I'll show you, and there was no mention of any external
21 borrowing in that answer.

22 MR. TAYLOR: May I have a copy of the
23 data request?

24 (Atty. Gearrald handing document to

[WITNESS: Dixon]

1 Atty. Taylor.)

2 **BY THE WITNESS:**

3 A. On here it does say it's through "short-term
4 intercompany borrowings". I would presume we hadn't --
5 wouldn't be able to build up enough of a balance to go
6 long-term at that point.

7 BY MR. GEARRALD:

8 Q. Just so we recall, Mr. Dixon, it is the Company's plan
9 to file a rate case -- it's an announced plan to file a
10 rate case every three years, is that not true?

11 A. It's generally what we've been following. You know, we
12 look at the circumstances at the time to determine if
13 we're actually going to do a rate case exactly on that
14 schedule. This rate case was filed perhaps four years
15 after our prior case. So, circumstances do change.
16 But that's our general approach.

17 Q. Looking at your Exhibit 7, your rebuttal testimony on
18 file, Page 13, Line 4. Are you there?

19 A. I am.

20 Q. That particular testimony of yours indicates that "As
21 declining consumption and rising operating expenses are
22 trends that are likely to continue for the foreseeable
23 future, the Company believes it is likely that it will
24 need to file a rate application at least every three

[WITNESS: Dixon]

1 years for the foreseeable future." Correct?

2 A. Yes, I see that.

3 Q. And, you also state there that "The WICA mechanism in
4 no way insulates the Company from these events."

5 Correct?

6 A. Yes. WICA doesn't protect us from rising expenses or
7 declining sales.

8 Q. Nevertheless, on Page 12, the prior page, Line 30, you
9 indicate that "WICA enables the Company to continue on
10 its previously announced plan to file rate cases
11 approximately every three years." Correct? I read
12 that correctly?

13 A. Yes, you did.

14 MR. GEARRALD: Thank you. That's all I
15 have for Mr. Dixon.

16 CHAIRMAN IGNATIUS: Thank you.

17 Ms. Hollenberg?

18 MS. HOLLENBERG: No questions. Thank
19 you.

20 CHAIRMAN IGNATIUS: Ms. Brown?

21 MS. BROWN: No questions from Staff.

22 Thank you.

23 CHAIRMAN IGNATIUS: Thank you.

24 Questions from Commissioners? Commissioner Harrington.

[WITNESS: Dixon]

1 CMSR. HARRINGTON: Yes.

2 BY CMSR. HARRINGTON:

3 Q. Referring to Exhibit 5 of your testimony, on Page 6,
4 and also some of the statements you had made yesterday
5 afternoon about the property tax increase, you said
6 that I think something to the effect that you "never
7 anticipated that property taxes would have gone up
8 close to 40 percent since your last general rate case."
9 That's correct?

10 A. I did state that, yes.

11 Q. And, I guess what I'm curious is, this new Right-of-Way
12 Tax came in. Does the Company make any attempt to, at
13 least through the process where these new taxes are
14 approved, through the town meetings or whatever, to let
15 the residents of the towns know that this is going to
16 have a major impact on their water rates?

17 A. Well, I think the first thing we do is we put a
18 challenge out there on these taxes. I mean, we
19 challenge everything.

20 Q. Excuse me, I'm not sure. What do you mean by "put a
21 challenge out"?

22 A. Well, we fought the Right-of-Way Tax as soon as we
23 heard about it. We heard about it, you know, a couple
24 days before we got a bill. And, as soon as we got that

[WITNESS: Dixon]

1 bill, we were challenging it. And, we were successful
2 at having the 2011 and 2012 amounts taken back, and
3 we'll be refunded for those. And, as a result of that,
4 there's a pot of money that's not part of this case
5 anymore. So, that's --

6 Q. Excuse me, but maybe we're not communicating here.

7 A. Sorry.

8 Q. I understand, you know, you went to court and were
9 successful in one year.

10 A. Uh-huh.

11 Q. What I was referring to is, well before you got the
12 bill, before the tax came, the proposal, before it
13 became law, did this Company take any actions to at
14 least make sure that the residents, the voters, the
15 townspeople go to town meetings in the various towns,
16 that they were aware that, if this passes, it's not
17 simply "Oh, Aquarion is going to pay extra money and
18 bring extra dough into the town", but, in fact, you're
19 going to pay for this tax penny-for-penny through
20 increased rates in your water rates, because the tax is
21 basically or can be a pass-through?

22 A. Right. We did not make any communication with the
23 customers. But, in this instance, we didn't even know
24 about the tax until two days before or three days

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[WITNESS: Dixon]

1 before we got the bill. It was a complete shock to us
2 that it was even coming.

3 Q. In retrospect, maybe you wish you had been more
4 involved in what was going on in the town, and had
5 reached out to the ratepayers saying "if this passes",
6 just not necessarily taking a political position, but
7 making sure that people, because I don't think a lot of
8 people understand, --

9 A. Yes.

10 Q. -- when that tax is passed, when you get the bill, you
11 just simply put it in the bucket and hand it over, and
12 say "Now, ratepayers, you've got to pay this."

13 A. I think it's important that -- you heard yesterday, we
14 do have a lot of forums that, whether it be a Customer
15 Advisory Board, those type of mechanisms, I think
16 that's important as something to pass on to the
17 customers during those type of forums. I think that
18 kind of -- any communication about the things that are
19 going to impact rates, I believe, is absolutely
20 important. And, I would hope that that would become
21 part of those sessions.

22 Q. Well, I guess what I'm suggesting, at least in the
23 past, if you didn't know about the tax until two days
24 before you got your bill, that was probably at least

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[WITNESS: Dixon]

1 six or eight months, well after it became law or went
2 into effect, so -- and that was worked on for months
3 and months before that. So, maybe the Company needs to
4 get a little bit more in tune to what's happening in
5 the towns, so that they can act proactively, to at
6 least let the ratepayers understand that any future
7 large increases in property tax on the Company are
8 simply going to be attempted to be passed on directly
9 to the ratepayers.

10 A. Certainly.

11 CMSR. HARRINGTON: Thank you. That's
12 all I had.

13 CHAIRMAN IGNATIUS: Commissioner Scott,
14 questions?

15 CMSR. SCOTT: No.

16 CHAIRMAN IGNATIUS: All right. I have
17 just a couple, I think.

18 BY CHAIRMAN IGNATIUS:

19 Q. It has to do with the WICA and what its purposes
20 is/are, I need a grammarian to answer that one for me,
21 the purposes of the WICA, let's say it that way. In
22 your rebuttal testimony, I'm looking at Page 11, that
23 top paragraph talks about WICA objectives. And, you
24 take issue with Mr. Rubin's understanding of what a

[WITNESS: Dixon]

1 WICA is all about, and describe your own theory of what
2 it's for. You disagree that system reliability and
3 water quality are objectives of the WICA, and instead
4 that it really is focused on replacing the aging system
5 and leaks and main breaks. Is that -- is there an
6 order that says that? Is there literature that you
7 base that on to reach your conclusion of what the
8 purpose of the WICA is?

9 A. Well, I think I sort of -- I look at those as great
10 byproducts. But, in terms of the WICA, in general, we
11 see a problem in the future where this infrastructure
12 is aging rapidly, and we are not replacing it fast
13 enough. So, I look at the WICA as the opportunity, and
14 something that helps us to spend money, replace
15 infrastructure faster, and try to head off problems in
16 the future by keeping up to speed on things. System
17 reliability, all those other things, definitely come as
18 a result, and they will be proven out over time. But
19 the biggest problem I see is that we're behind the
20 eight ball. And, I think, you know, we're not the only
21 utility in that place. There's a lot of replacement --
22 we've done a lot with WICA. But I think you heard Mr.
23 McMorran talk yesterday about how many feet of main
24 we've replaced, as opposed to, you know, how many feet

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[WITNESS: Dixon]

1 of pre-World War II main we have. So, there's a lot to
2 be done, and this helps us to get that work done.

3 Q. Do you know why it wasn't done over the years?

4 A. Well, we've certainly been putting replacements into
5 place. But, I think, with the WICA in place, I think
6 it provides that incentive just to do it faster. Why
7 it hasn't been done faster in prior years? There's
8 definitely a cost component of doing those
9 replacements. We could do it faster than we were, but
10 we'd probably be in for rate cases even more frequently
11 than we are.

12 Q. If you set aside the WICA investments and the funding
13 that's for those replacements of aging infrastructure
14 with a separate funding mechanism and recovery system,
15 and only think about expenses, I understand you've
16 testified to some cost-cutting measures that you've
17 looked for and taken.

18 A. Uh-huh.

19 Q. Use of chemicals, cutting your electricity costs, some
20 others. We're still seeing, every few years, very
21 significant rate increases, over and above the WICA
22 increases. And, yesterday, you described -- it didn't
23 sound like much of a real expectation of that changing
24 or improving, a wish that it would improve, but no real

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[WITNESS: Dixon]

1 plan to see that change, and that you might continue to
2 see things in the -- you know, we've been seeing
3 15 percent range increases every three years, with no
4 end in sight. And, that's very troublesome. And, I
5 want to give you another opportunity, because I didn't
6 find it very comforting, your answers yesterday, but we
7 were all -- it was late and we were tired.

8 So, I want to give you another chance to
9 see if there's anything else you can tell us that
10 suggests you're not looking at every three years
11 another -- excuse me -- 15, you know, 12, 18 percent,
12 whatever it may be, increase, in addition to the
13 infrastructure replacements through WICA?

14 A. I think there's probably two parts to that. One part
15 is, we touched on a little bit of what we do in terms
16 of a budgeting process and a five-year plan, and the
17 assumptions we use there. And, for that, we know what
18 our five-year plan looks like. We take certain
19 assumptions on those expenses that they're going to
20 increase at some sort of inflation -- inflationary
21 level. And, we also assume that -- we make assumptions
22 as to what the cost of capital is going to be
23 throughout that process. So, we do that from a
24 business planning purpose.

[WITNESS: Dixon]

1 But I'd also -- I want to almost point
2 to Mr. Walsh at this point, in terms of he and Mr.
3 McMorran actually running the business on a day-to-day
4 front, in terms of how they're looking at the future,
5 and what they're doing to, you know, find those places
6 where we can cut back on expenses.

7 If you look at us from when we acquired
8 the system in 2002, you know, there were -- I think we
9 counted, there are 13 employees now in the system, 13
10 employees, 12 equivalents, I believe two are part-time.
11 Whereas, when we acquired the system in 2002, I believe
12 we had five more employees than that. So, we found a
13 way to work smarter, and with fewer people, and still
14 deliver the product we need to. So, those are --
15 that's just one other thing we've done since the time
16 of acquisition. But I think --

17 Q. Can I ask, just to clarify one thing about that,
18 though?

19 A. Sure.

20 Q. Are some of the duties that may have been done in New
21 Hampshire now being done on a company-wide, fairly wide
22 basis, so that some of the services you provide to all
23 of the affiliates had been done on an in-house basis
24 before, to New Hampshire alone?

[WITNESS: Dixon]

1 A. I'm fairly certain the answer is "no". There were four
2 managers at the New Hampshire level, which now I
3 believe there is just Mr. McMorran. He might be able
4 to -- Carl wasn't around then either. But, at the
5 time, American also had allocated services for IT, and
6 a certain degree Customer Service. So, I don't think
7 it's just changing one expense for the other.

8 Q. All right. Thank you. All right, go on. I'm sorry, I
9 cut you off, in terms of cost-cutting.

10 A. But, you know, in terms of the view forward --

11 (Court reporter interruption.)

12 **CONTINUED BY THE WITNESS:**

13 A. For the view forward, I'd like to sort of turn to
14 Mr. Walsh and Mr. McMorran and their view of operations
15 going forward and how they see things.

16 CHAIRMAN IGNATIUS: Mr. Walsh.

17 WITNESS WALSH: Sure. As I was
18 mentioning yesterday, we have heard loud and clear, from
19 town officials and from the Commission, that the rate
20 increases are a concern. It is a top priority for me to
21 control expenses. And, that is across all of our expense
22 categories, including our labor category. So, Carl and I
23 are very much focused on controlling expenses, so that
24 future rate requests are not this significant.

[WITNESS: Dixon]

1 CHAIRMAN IGNATIUS: Do you have any
2 expectation, any sort of rate trajectory that you can
3 anticipate right now?

4 WITNESS WALSH: We have not put, other
5 than the five-year plan that Troy has put together, the
6 Company has not developed a rate trajectory. As Troy
7 mentioned yesterday, the thought is to be no more than a
8 10 percent rate request. That, of course, depends on the
9 frequency of when we come in for rate increases.

10 CHAIRMAN IGNATIUS: And, what does the
11 five-year plan encompass?

12 WITNESS WALSH: In terms of?

13 CHAIRMAN IGNATIUS: Whatever's in the
14 plan. I mean, you've referred to it a couple of times,
15 and I think I don't really know what the plan contains.

16 WITNESS WALSH: The plan, it includes
17 expense and capital projections.

18 WITNESS DIXON: I'll jump in quick.
19 From a capital perspective, we have a five-year capital
20 budget, which I think is part of this proceeding, it's
21 similar to what we put forward in WICA. So, it's fairly
22 specific, in terms of what we plan on doing over that time
23 span. In terms of operating expenses, we go through a
24 pretty rigorous budgeting process every year, for the

[WITNESS: Dixon]

1 current year's budget, for the 2013 budget. And, John,
2 maybe you can even talk a little bit to the detail there,
3 but, from that point, I take that 2013 budget, and it's
4 really simple inflationary adjustments made to that.
5 Unless there are any major known changes that we see
6 coming down the road, it's somewhat high level for those
7 out years. But the current year budget is quite a
8 rigorous process that we go through, with a lot of
9 challenge put to it.

10 CHAIRMAN IGNATIUS: Is that plan in the
11 record?

12 WITNESS DIXON: I don't believe so.

13 CHAIRMAN IGNATIUS: I'd like to ask that
14 that be submitted as a record request. We'll reserve
15 Exhibit 24.

16 **(Exhibit 24 reserved)**

17 CHAIRMAN IGNATIUS: And, the five-year,
18 I don't know how long ago it was done. What's the date of
19 it?

20 WITNESS DIXON: It would be for 2013 is
21 the first year of it. It would have been finalized at the
22 end of 2012.

23 CHAIRMAN IGNATIUS: And, do you do it
24 annually?

[WITNESS: Dixon]

1 WITNESS DIXON: Yes.

2 CHAIRMAN IGNATIUS: All right. So,
3 you're always sort of updating, to look out five years
4 sort of rolling forward?

5 WITNESS DIXON: We are.

6 CHAIRMAN IGNATIUS: All right. And,
7 that includes both the capital budget and the operating
8 expenses budget that you just described?

9 WITNESS DIXON: Yes, it does.

10 CHAIRMAN IGNATIUS: Okay. Thank you.

11 MR. TAYLOR: I'm sorry. Could we just
12 have a moment to confer with Mr. Dixon about the status of
13 the document you requested?

14 CHAIRMAN IGNATIUS: Certainly.

15 (Atty. Camerino conferring with Witness
16 Dixon.)

17 CHAIRMAN IGNATIUS: Mr. Taylor.

18 MR. TAYLOR: Is it open to me to do
19 redirect of Mr. Dixon at this time?

20 CHAIRMAN IGNATIUS: Oh, yes. Is there
21 any issue with the submission of the record request?

22 MR. TAYLOR: I think -- I believe it's
23 something we need to determine whether we need to seek
24 confidential treatment for the document, but we have to

[WITNESS: Dixon]

1 confer about that at this point.

2 CHAIRMAN IGNATIUS: All right. Why
3 don't you make that evaluation. Obviously, if it is
4 appropriate for confidential treatment, it could still be
5 made available to the parties. And, unless there's any
6 sort of allegation or claim you can make of why even they
7 shouldn't be seeing it, we generally don't have that
8 situation, except when there's competitive participants
9 who need -- who would not be authorized to see the
10 financial documents of people they're competing against,
11 but I don't see any of those issues here. So, take a look
12 at that. And, I understand, I mean, I want to make sure
13 that all of the parties understand that, if they do
14 receive anything, this or anything else confidentially,
15 that they are absolutely under requirements to treat it
16 confidentially. Anything that can be isolated for the
17 particular items that are confidential, not an entire
18 document, should be redacted. So that, if it's a 20-page
19 document, and only, you know, one paragraph on one page,
20 and another paragraph on another page need to be
21 protected, those would be the only two that would be
22 redacted, and the rest would be publicly available. But
23 I'm sure you can work that through, looking at our rules.

24 MR. TAYLOR: Understood. And, we'll

[WITNESS: Dixon]

1 give it a close evaluation.

2 CHAIRMAN IGNATIUS: Thank you. So, I
3 think we still have further questioning. Commissioner
4 Scott.

5 CMSR. SCOTT: Sure. Thank you.

6 BY CMSR. SCOTT:

7 Q. Earlier, and you alluded to it a few minutes ago, we
8 had this discussion about aging infrastructure, and the
9 figure, if I heard it right, was there's about
10 82,000 feet of pre-World War II main still in the
11 system or was in the system, approximately.

12 A. I'd look to Mr. McMorran, but I think that's the right
13 number.

14 WITNESS McMORRAN: Yes. It's more than
15 82,000. It's more than 82,000 feet in that time frame.

16 BY CMSR. SCOTT:

17 Q. We'd agree it's a lot anyways.

18 A. It is.

19 Q. The presumption is, it's pre-World War II, therefore,
20 it should be replaced. Is that correct or --

21 WITNESS McMORRAN: It's just the oldest
22 main in the system. And, because of its age, it's the
23 most likely to have a higher level of leakage rate.

24 CMSR. SCOTT: Okay. And, maybe I'll ask

[WITNESS: Dixon]

1 the question a different way. It was identified as
2 "pre-World War II" as -- probably to exemplify that it's
3 old, I get that. But is the plan for replacement, you
4 target the oldest, and then moving forward?

5 WITNESS McMORRAN: Age is one of the
6 factors that we consider when we evaluate what mains to
7 replace.

8 CMSR. SCOTT: And, probably I'll get
9 more to my point, is the implication has been that the
10 WICA is not enough for the aging infrastructure, is that
11 correct?

12 WITNESS McMORRAN: We would have to
13 spend considerably more in WICA to get a significantly
14 greater amount of the main replaced in a given year, I
15 guess is the best way of answering the question.

16 CMSR. SCOTT: Okay. Again, let me ask
17 this a different way. So, age is, obviously, an indicator
18 of -- it would make sense that the greater the age, the
19 more likelihood you would have leaks and issues with the
20 main?

21 WITNESS McMORRAN: Yes.

22 CMSR. SCOTT: Correct. So, when you
23 target replacement is -- I assume you use the most at-risk
24 places or places that have some leaks already as your

[WITNESS: Dixon]

1 target, I assume? You prioritize, I assume, that way?

2 WITNESS McMORRAN: Yes. It's one of the
3 factors, along with historical frequency of main breaks,
4 whether there's corrosive soils there. I'm sorry, I'm
5 drawing a blank on what the other factors are.

6 CMSR. SCOTT: Sure. So, you --

7 WITNESS McMORRAN: But there's a bunch
8 of things we factor in to try and establish which main has
9 a higher priority compared to other mains.

10 CMSR. SCOTT: So, I'll go back to where
11 I was trying to get at. So, in order to maintain the
12 current level of system integrity, if you will, do you
13 feel that the current WICA moving forward gives you the
14 resources and wherewithal to maintain it or improve that
15 level?

16 WITNESS McMORRAN: Well, it helps us
17 replace more mains on an annual basis than we have
18 historically. It's still, at least what we've done over
19 the last three years, the mains aging faster than we've
20 been able to replace them, so we'd have to increase our
21 investment above even our historical levels to sort of
22 maintain a level playing field with respect to aged mains.

23 CMSR. SCOTT: Okay. So, and I know I'm
24 asking you to say something you don't know unequivocally,

[WITNESS: Dixon]

1 because you're predicting whether things leak or not, but
2 -- so, what I'm hearing is, at the current WICA level, if
3 nothing changes, you'll experience -- you expect the
4 system to have more leaks and more problems than it
5 currently has or do you think it stabilizes where you are?

6 WITNESS McMORRAN: Well, we replaced
7 about three-tenths of a percent of our system per year.
8 So, if you sort of reverse that calculation, that means
9 that we expect the mains to last an average of about 300
10 years. It seems a little high to expect a water main to
11 last that long. So, if we wanted to -- if the right
12 number, and it's open to some debate, but if we wanted the
13 average main to last 100 years, then we'd have to replace
14 1 percent of the system every year. And, that's three
15 times higher than what we've done so far.

16 CMSR. SCOTT: Okay. So, and again, I'm
17 not trying to put words in anybody's mouth, so, it sounds
18 like the answer is "yes", the current WICA plan doesn't
19 get you 100 percent of where you feel you need to be?

20 WITNESS McMORRAN: That's correct. But
21 it has enabled us to do more than we have done
22 historically. So, we're moving in the right direction.

23 CMSR. SCOTT: So, it's a positive for
24 the system, but it doesn't fix -- maintains the system?

[WITNESS: Dixon]

1 WITNESS McMORRAN: Right.

2 CMSR. SCOTT: So, then I would ask, on
3 planning, so, what is the Company's plan to make the
4 system viable for the future?

5 WITNESS McMORRAN: Well, it's a
6 trade-off. Ideally, we'd like to replace some more main,
7 but that doesn't balance with what the costs of that will
8 be and what the rate impacts will be.

9 CMSR. SCOTT: So, is there a plan, is my
10 question?

11 WITNESS McMORRAN: Well, we have a plan
12 in the sense that we've categorized all of our mains and
13 established a priority. And, then, year by year we'll
14 have to look at what those expected costs will be and make
15 a judgment as to whether we -- how much we can afford in a
16 given year. And, we've got to balance that portion of our
17 capital project against the non-WICA needs. We need to
18 maintain our wells, maintain our --

19 (Court reporter interruption.)

20 WITNESS McMORRAN: -- maintain our
21 wells, maintain our other production facilities, all the
22 other things that are required to provide reliable water
23 service.

24 CMSR. SCOTT: When I ask these

[WITNESS: Dixon]

1 questions, I do understand that, and you're correct,
2 you're not the only utility that has this aging
3 infrastructure issue. So, I understand the context, I
4 believe. So, okay. Thank you.

5 CHAIRMAN IGNATIUS: Commissioner
6 Harrington.

7 CMSR. HARRINGTON: Yes.

8 BY CMSR. HARRINGTON:

9 Q. Sort of following up to Commissioner Scott's question
10 on the -- I'm trying to determine, you replace, through
11 the WICA Program, you replace the mains based on the
12 age of the system or are there other factors? Or, is
13 it -- I assume one that has active leaks get attention
14 first. Or, could you just give us the criteria you
15 use?

16 WITNESS McMORRAN: Yes. The age of the
17 water mains are a criteria. We look at the main break
18 history, the age -- I already mentioned the age, the age
19 of the pipe, the integrity of the -- the material of the
20 pipe. There's a variety of materials, iron pipe, cast
21 iron, ductile iron, asbestos cement, and some of them have
22 a longer working life than others. Some areas are subject
23 to some water quality issues, which is somewhat related to
24 age, but there may be other factors. So, that's a factor.

[WITNESS: Dixon]

1 We look at hydraulic capacity. Whether there's
2 satisfactory fire flow rates. Sometimes, as the system is
3 developed, the main that was appropriately sized at the
4 time it was put in, now is undersized, so that may need to
5 be increased. We look at the coordination of the schedule
6 with other projects, for example, the sewer work that the
7 Town of Hampton may do.

8 CMSR. HARRINGTON: Okay.

9 WITNESS McMORRAN: So, those are the
10 things that we all factor in to determining which main
11 projects to pursue ahead of others.

12 CMSR. HARRINGTON: Now, when you remove
13 pipe from -- a main from a particular area, do you do any
14 analysis of the pipe to determine that, you know, "we took
15 this out, and, boy, it's a good thing we picked this one,
16 because it probably wouldn't have lasted another year", or
17 maybe you do analysis that says "well, we already replaced
18 this for all those reasons that we considered, but it
19 looks like this type of pipe in this area probably has
20 another 20 years left on it of a successful life." Is
21 there any attempt to, you know, through what you learn
22 from removal of the pipe, to factor that into where your
23 next pipe should be or maybe should not be, because it
24 looks like it's got a pretty long life?

[WITNESS: Dixon]

1 WITNESS McMORRAN: We don't do any kind
2 of intensive post-project analysis. That's pretty much
3 based on what the characteristics are before we do the
4 project. Basically, solving what we think are the biggest
5 problems.

6 CMSR. HARRINGTON: I guess what my issue
7 would be, if you replaced a pipe in a certain area, and
8 you found that the wall was thinning due to corrosion so
9 much that it was going to fail within the next year, would
10 you not then try to target similar material pipe with
11 similar conditions? Say "we've got to get these out",
12 because, you know, when -- if a pipe fails, all of a
13 sudden the expense goes way up. You don't have the
14 ability to coordinate with the town and everything. You
15 have to dig it up right then and there. It may fail in
16 the wintertime, etcetera, etcetera.

17 WITNESS McMORRAN: Well, those are the
18 factors that we consider as we prioritize these projects.
19 I mean, we get some information when we deal with main
20 breaks, or when we remove main, we get some judgment on
21 the integrity of the material or what the quality of the
22 soils are, and other factors that contribute to that, and
23 we factor that into our ongoing process of establishing
24 the priorities for replacing mains.

[WITNESS: Dixon]

1 CMSR. HARRINGTON: All right. Thank
2 you. One other question that's probably to Mr. Dixon.

3 BY CMSR. HARRINGTON:

4 Q. During the town -- public hearing we had at the town
5 last winter, I guess it was, or fall, there was a
6 number of people that at least claimed that there was a
7 recent Aquarion case, and it was referenced in your
8 testimony having to do with the ROE awards, I believe
9 it was in March of 2012. But it was stated there by a
10 couple of people that Aquarion in Massachusetts, they
11 filed, and the requested rate was substantially
12 reduced, one person said "by almost half" by the Mass.
13 DPU. Could you comment on that please.

14 A. The overall rate request was reduced, I'm trying to
15 remember the figures. I remember seeing the headline
16 saying "almost half", and I believe it was -- the
17 outcome was approximately 60 percent of our ask in that
18 case, 60 some odd percent. I can't recall the exact
19 figure now.

20 Q. And, was there any particular, I mean, that's a fairly
21 substantial decrease from what you requested. Was
22 there any particular issue that stood out as accounting
23 for the majority of that 40 percent decrease?

24 A. No. There were -- there was a reduction about -- on

[WITNESS: Dixon]

1 the ROE that we requested, there were adjustments
2 during the case for a refinancing that we did during
3 the case, a handful of expense-type adjustments. There
4 was an elimination of a management charge that we had
5 at the time, which is not part of this case either.
6 We've removed it from this case. And, I don't think
7 there was any one item that just stood out.

8 Q. Okay. Just out of curiosity, you said there was an
9 "ROE reduction". So, the 10.25 that was awarded was
10 lower than what the Company originally requested?

11 A. Yes. It was 11.5 on the request.

12 CMSR. HARRINGTON: 11.5, interesting.
13 That's all the questions I had. Thank you.

14 CHAIRMAN IGNATIUS: All right. Then,
15 any redirect, Mr. Taylor?

16 MR. TAYLOR: Yes.

17 **REDIRECT EXAMINATION**

18 BY MR. TAYLOR:

19 Q. Mr. Dixon, Mr. Gearrald had asked you about \$4 million
20 debt in a promissory note that had been issued from
21 Aquarion Water Company of New Hampshire to a parent
22 company, I believe it was Aquarion Water Company, or
23 correct me if I'm wrong about that?

24 A. I can't remember if it was Aquarion Water Company or

[WITNESS: Dixon]

1 Aquarion Company. But --

2 Q. Okay. But, I just want to clarify, that \$4 million has
3 been refinanced and is now external debt, is that
4 correct?

5 A. It's now refinanced, and it's an external \$5 million
6 issue, yes.

7 Q. Okay. So, any debt that's included in this case is
8 externally financed?

9 A. That's correct.

10 Q. On the issue of WICA, the -- I'll say aging of
11 infrastructure and the need to invest capital to
12 replace aging infrastructure, would you agree that that
13 is a national problem?

14 A. Yes. Any time I go to -- that we have a National
15 Association of Water Companies, we go to the
16 conferences. And, inevitably, what you will see or
17 hear is the looming problem of aging infrastructure
18 replacement that is facing the industry. I hear it
19 quite often.

20 Q. And, are you aware, has NARUC, the National Association
21 of Regulatory Utility Commissioners, taken a position
22 on mechanisms such as WICA?

23 A. Yes. They have included that in one of what they call
24 their "best practices", the WICA mechanisms, as a means

[WITNESS: Dixon]

1 to accelerate that infrastructure replacement.

2 Q. And, in your testimony, there is an attachment that
3 shows, that I believe it's Attachment -- pardon me,
4 Attachment TMD-2, shows that, at the time you filed
5 this rate case, at least ten other states had adopted a
6 mechanism like WICA, is that correct?

7 A. That's correct. And, I know, since this time, I heard
8 a couple weeks back that Maine has now adopted it as
9 well. And, in Connecticut, I also -- I think I
10 referred to yesterday, that we are -- we have increased
11 the caps on the allowances for WICA in Connecticut,
12 since the time of this exhibit.

13 CHAIRMAN IGNATIUS: Mr. Taylor, you may
14 be winding up on that, but let's not go through prefiled
15 testimony --

16 MR. TAYLOR: Understood.

17 CHAIRMAN IGNATIUS: -- on redirect.
18 Anything that wasn't filed and is an update to that, the
19 example of Maine would be appropriate. But the NARUC
20 resolutions, the Connecticut cap being increased, I
21 remember reading in the testimony.

22 MS. HOLLENBERG: Thank you. Actually, I
23 just wanted to comment that I was getting a little bit
24 concerned, just because we are deferring -- at least the

[WITNESS: Dixon]

1 Settlement provides for the deferral of the evaluation of
2 WICA, and I understand the Commission has the prerogative
3 to deny the Settling Parties' request to do that. But, to
4 the extent that we're getting into the substance of WICA
5 and validating it, that seems to be beyond the Settlement
6 terms that the Company reached with the OCA and the Staff.

7 MR. TAYLOR: Sorry. My intent was,
8 there had been a question from the Bench regarding
9 historical practices with respect to aging infrastructure,
10 and I just wanted to clarify some issues.

11 CHAIRMAN IGNATIUS: That's fine.

12 MR. TAYLOR: So, I'll refrain from any
13 further redirect on that issue. And, actually, that's
14 going to do it for me on redirect.

15 CHAIRMAN IGNATIUS: All right. Then,
16 thank you.

17 MR. GEARRALD: Can I just ask a couple
18 of questions, in light of the Commissioners' questions?

19 CHAIRMAN IGNATIUS: No, we don't usually
20 do that.

21 MR. GEARRALD: Okay.

22 CHAIRMAN IGNATIUS: Unless you can make
23 the case that it's absolutely critical, and I'll hear a
24 short request, but --

[WITNESS: Dixon]

1 MR. GEARRALD: Okay. What I would ask
2 Mr. Dixon is just the anticipation of the Company, as part
3 of that plan that's been described to the Commission, that
4 the Company will be coming in in the next few years for
5 WICA adjustments regularly, and also that that plan that
6 Mr. Dixon has described, the five-year plan, does not
7 include at present the 10 percent figure that he's told
8 you about. That's his hope, but it's not in -- I would
9 ask him whether that's in the plan.

10 CHAIRMAN IGNATIUS: Well, I think we've
11 already had many times asking their intentions to come in
12 on a roughly three-year basis, plus WICA. And, the plan
13 will say what the plan says.

14 MR. GEARRALD: Thank you.

15 CHAIRMAN IGNATIUS: So, we're going to
16 move on. Mr. Dixon, you're excused. Thank you.

17 WITNESS DIXON: Thank you.

18 CHAIRMAN IGNATIUS: So, our next
19 witness, will it be Ms. Ahern?

20 MR. TAYLOR: We request a brief break to
21 confer with our client and our consultant, if we may?

22 CHAIRMAN IGNATIUS: All right. That's
23 fine. So, why don't we -- ten minutes is sufficient?
24 Fifteen?

1 MR. TAYLOR: Fifteen minutes would be
2 good.

3 CHAIRMAN IGNATIUS: All right.

4 MR. TAYLOR: Thank you.

5 CHAIRMAN IGNATIUS: We'll resume at
6 10:15.

7 (Whereupon a recess was taken at 10:01
8 a.m. and the hearing resumed at 10:26
9 a.m.)

10 CHAIRMAN IGNATIUS: All right. We're
11 back. And, are we ready now for Ms. Ahern?

12 MR. TAYLOR: I would call Pauline Ahern
13 to the stand.

14 CHAIRMAN IGNATIUS: Thank you. I've
15 been mispronouncing your name. "Ahern", rather than
16 "A-hern".

17 MS. AHERN: Well, I'm from
18 Massachusetts, and down there they call it "Ahern". I
19 live outside Philadelphia, and they call it "A-hern".

20 CHAIRMAN IGNATIUS: All right. What do
21 you prefer, because we'll try it?

22 MS. AHERN: I'm used to "Ahern".

23 CHAIRMAN IGNATIUS: "Ahern", all right.

24 MR. TAYLOR: Attorney Camerino is going

[WITNESS: Ahern]

1 to conduct the examination of the witness.

2 CHAIRMAN IGNATIUS: Thank you.

3 (Whereupon **Pauline M. Ahern** was duly
4 sworn by the Court Reporter.)

5 **PAULINE M. AHERN, SWORN**

6 **DIRECT EXAMINATION**

7 BY MR. CAMERINO:

8 Q. Ms. Ahern, would you state your name and business
9 address please.

10 A. My name is Pauline M. Ahern, A-h-e-r-n. I'm a
11 Principal with AUS Consultants, 155 Gaither,
12 G-a-i-t-h-e-r, Drive, Suite A, Mount Laurel, two words,
13 New Jersey 08054.

14 Q. And, there was prefiled testimony dated March 6, 2013
15 that was filed with your name on it that has been
16 marked for identification as "Exhibit 8". And, was
17 that prepared by you or under your direction?

18 A. Yes, it was.

19 Q. And, I'm going to take you through a few corrections to
20 that testimony. But, subject to those corrections, is
21 it true and correct to the best of your knowledge and
22 belief?

23 A. Yes.

24 Q. And, are your qualifications set forth in that

[WITNESS: Ahern]

1 testimony?

2 A. Yes, they are.

3 Q. I know that there's one correction that's more
4 extensive that we're going to go through, but I want to
5 ask you, before you get to that one, would you take the
6 Commission through the other corrections that you've
7 got to make.

8 A. Okay. These are all editorial or typos in nature. The
9 first one is on Page 21, Line 20. After the word
10 "company-", the words "or proxy group-" should be
11 inserted.

12 MR. GEARRALD: I'm sorry. Can you do
13 that one again? I missed that. Page 21, Line 20?

14 WITNESS AHERN: Right. Where it says
15 "company-specific"?

16 MR. GEARRALD: Yes.

17 WITNESS AHERN: It should read "company-
18 or proxy group-specific". That was noted in one of the
19 interrogatory responses.

20 **BY THE WITNESS:**

21 A. The second one is also on Page 21, Line 24. The very
22 first word "my" should be "one", o-n-e. And, near the
23 end of Line 24, the words "discussed below" should be
24 stricken or stricken.

[WITNESS: Ahern]

1 The next one is on Page 23, Line 17,
2 there are two. After the word "current", there's a
3 parenthetical question mark, that should be deleted.
4 And, at the end of the line, after the word "should",
5 the word "not" should be inserted.

6 And, on Page 36, Lines 18 and 19, this
7 was pointed out in Data Request 4-16, I said I would
8 make the correction here. After it says "Mr.
9 Parcell's", the rest of the question should be
10 stricken, and inserted it should read "application of
11 the CE?"

12 MR. GEARRALD: So, what would it read
13 now?

14 WITNESS AHERN: "Do you have any
15 comments regards Mr. Parcell's application of the CE?"

16 **BY THE WITNESS:**

17 A. And, on Page 43, Line 21, the numbers "88" should be
18 "86".

19 BY MR. CAMERINO:

20 Q. Okay. I'm going to, for the sake of clarity of the
21 record, try and take you through the last correction.
22 And, I'm going to start by just distributing to the
23 Bench a copy of Ms. Ahern's Attachment PMA-3. This is
24 already in the record, but it may be easier to just

[WITNESS: Ahern]

1 have it in front of you. And, I've given a copy to the
2 parties and the Staff.

3 BY MR. CAMERINO:

4 Q. So, Ms. Ahern, do you have a correction to Attachment
5 PMA-3, and, if you do, could you explain what it is?

6 A. Yes, I do. In Column (4), I've averaged the projected
7 growth rates from Column (2) and (3). This morning,
8 for Middlesex Water Company, I realized that that
9 average is not an average. It merely references
10 Column (2). So, the correction begins with the
11 "7.00 percent" for Middlesex Water, it should be
12 "4.85".

13 Q. And, just to be clear, it's the "7.00 percent" in
14 Column (4) that should be changed to "4.85"?

15 A. In Column (4), yes.

16 Q. Please proceed.

17 A. And, that results in an adjusted dividend yield, in
18 Column (5), instead of "4.24", of "4.20". And, that
19 results in an indicated common equity cost rate, in
20 Column (6), for Middlesex, of "9.05", instead of
21 "11.24". And, that flows down to an average, a new
22 average, corrected average of "9.54".

23 CMSR. HARRINGTON: This is in Column
24 (6)?

[WITNESS: Ahern]

1 WITNESS AHERN: In Column (6), yes.

2 **BY THE WITNESS:**

3 A. And, a corrected median of "9.10", instead of "9.4".
4 The indicated range becomes "9.32 to 9.54", with a
5 midpoint of "9.43".

6 MR. CAMERINO: I'm going to ask you a
7 few more questions about this in a second, Ms. Ahern.
8 But, just for the Commission's information, we did our
9 best during the break, in a very summary fashion, to alert
10 the Staff and the parties to this change, so they're not
11 hearing it just as Ms. Ahern is testifying. But,
12 obviously, as she's about to indicate, there are multiple
13 places in the testimony that will require changing to
14 this, and they are not privy to all of those yet.

15 CHAIRMAN IGNATIUS: All right. Thank
16 you.

17 BY MR. CAMERINO:

18 Q. So, Ms. Ahern, with those changes -- Oh, and this
19 schedule, what is this? What's the significance of
20 this schedule? What is it conveying to the Commission?

21 A. It's conveying my perception of a correction to Mr.
22 Parcell's DCF calculation using his data.

23 Q. Thank you. So, with those changes, could you identify,
24 as best you can at this point in time, all of the

[WITNESS: Ahern]

1 places that numbers need to change in the testimony.

2 MR. CAMERINO: And, just before you do
3 that, I want to indicate, the Company will -- I think the
4 best thing for us to do would be to resubmit the testimony
5 with all of those corrections in it in a redline fashion,
6 either later today or first thing on Tuesday.

7 CHAIRMAN IGNATIUS: Thank you.

8 BY MR. CAMERINO:

9 Q. So, please proceed, Ms. Ahern.

10 A. Okay. I believe I found them all. The first is on
11 Page 20, in Lines 21 and 20 -- I'm sorry, Lines 20 and
12 21. The "9.59", at the end of Line 20, should read
13 "9.32". The "9.78", at the beginning of Line 21,
14 should read "9.54". The middle of 9 -- the midpoint of
15 "9.69", that should read "9.43". To the best of my
16 knowledge, the next one is on Page 40. At Line 16,
17 they -- instead of "9.59 to 9.78", the range should be
18 "9.32 to 9.54". The midpoint, on Line 17, should be
19 "9.43". And, on Line 26, the "9.69", should be "9.43".
20 The "10.37" is okay. The "10.03" should be "9.90".
21 And, the same on Line 27, the "10.03" should be "9.90".
22 And, then, I believe the only other changes, though
23 many, are on Page 49. These begin on Line 13, on Page
24 49. The range of "10.85 to 11.04" should be "10.58 to

[WITNESS: Ahern]

1 10.8".

2 CMSR. HARRINGTON: Ten?

3 WITNESS AHERN: 80. 10.80.

4 **BY THE WITNESS:**

5 A. On Line 14, the "11.63" should be "10.70". On Line 17,
6 the "9.59 to 9.79" [9.78?] should be "9.32 to 9.54".
7 On Line 18, the midpoint should read "9.43". On Line
8 25, the range should be "9.58 to 10.80".

9 MR. GEARRALD: I'm sorry, what were
10 those figures again?

11 WITNESS AHERN: "10.58 to 10.80".

12 CHAIRMAN IGNATIUS: No.

13 CMSR. HARRINGTON: You said "9.58" the
14 first time.

15 WITNESS AHERN: Oh, I'm sorry. I
16 misspoke. It's --

17 FROM THE FLOOR: 9.58.

18 WITNESS AHERN: Let me just add that up
19 again. Yes, 2, 6, 8, it should be 10. Yes, it should 10.
20 It should be "10.58 to 10.80".

21 BY MR. CAMERINO:

22 Q. While you're on that one. That range is the same range
23 that appears on Line 13?

24 A. I was just going to say that, yes, it is. The

[WITNESS: Ahern]

1 midpoint, on Line 26, is "10.7". Line 29, the "10.95"
2 should be "10.70", the "11.63" is okay. And, finally,
3 on Line 30, the "11.29" should be "11.17".

4 MS. HOLLENBERG: Excuse me. May I ask
5 for the Line 29 correction to be repeated please?

6 WITNESS AHERN: Line 29, the "10.95"
7 should be "10.70", and the "11.63" is the same.

8 MS. HOLLENBERG: Okay.

9 BY MR. CAMERINO:

10 Q. And, with those changes, I just want to ask you again,
11 this testimony is true and correct to the best of your
12 knowledge and belief?

13 A. Yes.

14 MR. CAMERINO: If, madam Chairman, if it
15 turns out that we've identified any other changes that
16 were not just read into the record, we would specifically
17 call those out in the cover letter when we submit the
18 testimony, so that the parties are aware of that.

19 CHAIRMAN IGNATIUS: Thank you.

20 MR. GEARRALD: Madam Chairman, may we
21 have about five minutes to review this? This is news to
22 us. These changes weren't outlined in detail to us during
23 the break. It was represented these would be made on the
24 stand. We just need a bit of time to think about this.

[WITNESS: Ahern]

1 CHAIRMAN IGNATIUS: All right. That's
2 fair. So, if it's really five minutes, that would be
3 10:45.

4 MR. GEARRALD: Sure.

5 CHAIRMAN IGNATIUS: And, if you want to
6 use, I don't know if the conference room next door is
7 available to confer, that would be fine.

8 MR. CAMERINO: And, just --

9 CHAIRMAN IGNATIUS: Yes, Mr. Camerino.

10 MR. CAMERINO: Just so you're aware,
11 that completes my direct examination.

12 CHAIRMAN IGNATIUS: Okay. Then, we'll
13 take just a five-minute break.

14 (Whereupon a recess was taken at 10:41
15 a.m. and the hearing resumed at 10:50
16 a.m.)

17 CHAIRMAN IGNATIUS: Mr. Gearrald, are
18 you ready?

19 MR. GEARRALD: I am. Thank you.

20 CHAIRMAN IGNATIUS: Please proceed.

21 MR. GEARRALD: Good morning, Ms. Ahern.

22 WITNESS AHERN: Good morning.

23 MR. GEARRALD: Appreciate your making
24 the corrections you've made.

[WITNESS: Ahern]

1 WITNESS AHERN: Okay. There was no
2 choice. No, it's the right thing to do.

3 MR. GEARRALD: Yes. Thank you.

4 **CROSS-EXAMINATION**

5 BY MR. GEARRALD:

6 Q. When were you retained in this proceeding, Ms. Ahern?

7 A. Either -- I don't recall the exact date, but around the
8 time -- it was either just before or just after the
9 Town of Hampton filed its testimony.

10 Q. So, it was this year, 2013?

11 A. Correct.

12 Q. Early 2013?

13 A. Correct.

14 Q. Correct. And, you were not asked to develop a cost of
15 equity recommendation for Aquarion Water of New
16 Hampshire, were you?

17 A. No.

18 Q. And, you have not performed any analyses of the level
19 of Aquarion Water Company of New Hampshire's business
20 risk at the current time, relative to the level of
21 business risk at the time of the Company's last
22 proceeding, have you?

23 A. No, I did not. And, I didn't, because the cost -- both
24 the cost of capital -- excuse me, I have a cold -- and

[WITNESS: Ahern]

1 ratemaking are prospective. That is, it is investors'
2 perception of risk going forward that is relevant, not
3 risk from the prior rate case.

4 Q. You are the publisher of the AUS Utility Reports,
5 correct?

6 A. That's correct.

7 Q. And, relative to the risk of various utilities, I'm
8 going to show you now the AUS Utility Reports, The
9 Investor's Edge. This is part of -- and the pages that
10 relate to the bond ratings of the various industries,
11 electric, electric and gas, natural gas distribution
12 and integrated natural gas, and water companies. These
13 are -- you recognize these pages?

14 A. Yes, I do.

15 CHAIRMAN IGNATIUS: Mr. Gearrard, would
16 you give a copy to counsel please, if you have not already
17 done so?

18 MR. GEARRALD: I did.

19 CHAIRMAN IGNATIUS: Thank you.

20 MR. GEARRALD: I did.

21 BY MR. GEARRALD:

22 Q. And, these appear to come from that report?

23 A. They do come from that report.

24 MR. GEARRALD: I'd like this to be

[WITNESS: Ahern]

1 marked please. This is relative to the risk of water
2 industries versus other industries.

3 CHAIRMAN IGNATIUS: All right. If we
4 can have a copy please?

5 (Atty. Gearrard distributing documents.)

6 CHAIRMAN IGNATIUS: So, we'll mark for
7 identification as "Exhibit 25" the "April 2013 AUS Monthly
8 Utility Report, Electric, Natural Gas, and Water
9 Companies" is the cover, but I understand you've pulled
10 individual pages out, correct?

11 MR. GEARRALD: Yes. So, this is
12 Exhibit 21?

13 CMSR. HARRINGTON: Twenty-five.

14 MR. GEARRALD: Twenty-five, I'm sorry.

15 (The document, as described, was
16 herewith marked as **Exhibit 25** for
17 identification.)

18 MS. HOLLENBERG: Excuse me. May I ask
19 for a copy as well, I'm sorry? Thank you so much.

20 MR. GEARRALD: Certainly.

21 BY MR. GEARRALD:

22 Q. Ms. Ahern, the column that you find pertinent in terms
23 of assessing the risk of companies is the Standard &
24 Poor's bond rating, which, if you look at Page 6, for

[WITNESS: Ahern]

1 the electric companies, is the fifth column over.

2 That's the one that you refer to, is it not, most
3 commonly?

4 A. I'm not quite sure I understand the question. Can you
5 give me a reference where I refer to this?

6 Q. When you're stating in your report the -- assessing the
7 relative risk between water companies and electric
8 companies, you were looking at Standard & Poor's bond
9 rating, correct?

10 A. No. When I was talking about assessing the risk
11 between water companies and the other industries, I was
12 looking at my Schedule PMA-1, which shows a lot of
13 measures of various financial metrics and ratios. And,
14 there's a discussion of that in my rebuttal testimony
15 early on. I wasn't referring to bond ratings at all.
16 Bond ratings are an incomplete measure of relative
17 risk. They only measure the risk that is faced by the
18 bondholders and debt holders, not by the common equity
19 holders. They're a measure of credit risk.

20 Q. Credit risk. So, just looking at the "Standard &
21 Poor's bond rating" columns, however, if you compare on
22 each of Pages 6, 10, 14, for all those industries, and
23 compare that to the water companies on Page 18, you see
24 that the -- for the Standard & Poor's bond rating,

[WITNESS: Ahern]

1 generally, the water companies have higher bond ratings
2 overall than the other utilities, isn't that correct?

3 A. That they have slightly higher bond ratings. But, as I
4 said, bond ratings are an incomplete measure of the
5 investment risk in any company. They're a measure of
6 the investment risk in the bonds, not the common
7 equity.

8 Q. But they are one measure of risk, correct?

9 A. They are one measure of one type of risk.

10 Q. Ms. Ahern, turning to your report, which is marked as
11 "Exhibit 8", Page 21, Line 20, --

12 A. Yes.

13 Q. -- you have a statement here that says "As shown on
14 Attachment PMA-5, Lines [Pages?] 3 through 5, Standard
15 & Poor's explains how and why the utility bond rating
16 process takes into account all of the basic components
17 of business and financial risk." Did I read that
18 correctly?

19 A. That's correct, as it relates to debt holders. I would
20 also point out, you mentioned --

21 Q. I finished my question. Now, Ms. Ahern, you've
22 provided some answers to data requests on the part of
23 the Town of Hampton, correct?

24 A. Correct.

[WITNESS: Ahern]

1 Q. And, one of those questions was Hampton's Request 4-1,
2 which asked you for what your prior expert testimony
3 was over a period of five years in which you provided
4 cost of capital testimony, and asked for name of
5 utility, jurisdiction, docket number, cost of equity
6 recommended, and cost of equity authorized, correct?

7 A. Correct.

8 Q. And, you provided, in response to that, a chart that
9 actually took us back to the year 2000, correct?

10 A. Correct.

11 MR. GEARRALD: I'd like this to be
12 marked.

13 CHAIRMAN IGNATIUS: Could we have a copy
14 of it please.

15 (Atty. Gearrald distributing documents.)

16 CHAIRMAN IGNATIUS: Thank you. So,
17 we'll mark for identification as "Exhibit 26" the Data
18 Response, Hampton 4-1, from Ms. Ahern.

19 (The document, as described, was
20 herewith marked as **Exhibit 26** for
21 identification.)

22 BY MR. GEARRALD:

23 Q. Ms. Ahern, the majority of the cases in which you've
24 testified over these years, the majority of them are

[WITNESS: Ahern]

1 water cases, is that true?

2 A. True.

3 Q. And, isn't it true that, in the vast majority of cases
4 on this Exhibit 26, in which you recommended a return
5 on equity, and a commission responded with a return on
6 equity authorized, that the commissions authorized a
7 return on equity below what you recommended?

8 A. Yes. There was one case where they actually
9 recommended higher, but, yes.

10 Q. And, what you've got here is a list of over 100 cases,
11 isn't that true?

12 A. Correct.

13 Q. Mr. Parcell and I have done some numbers here by going
14 down through the list of your recommended and ROE
15 authorized list in the order that is -- I'm sorry, this
16 is by year.

17 A. I have it.

18 Q. The order in which you presented it.

19 (Atty. Gearrald handing document to the
20 witness.)

21 WITNESS AHERN: Oh. Sorry.

22 BY MR. GEARRALD:

23 Q. Assuming this list is correct, in that we're only
24 listing the ones in which there was actually an ROE

[WITNESS: Ahern]

1 authorized by a Commission in response, and assuming
2 that your ROE recommended includes a midpoint when you
3 have a range, would it be accurate to say, do you
4 think, that -- or do you have any question that the
5 average of the difference between your ROE recommended
6 and that which is authorized is 1.44 percent?

7 A. I --

8 MR. CAMERINO: I have -- just one
9 minute. First of all, I'm not clear from the question,
10 there were a number of representations made in it about
11 assumptions as to how these numbers were derived. If
12 these are numbers that are in the record, I'd just like to
13 know where they come from, so that we could check them
14 ourselves. I don't have a problem with Mr. Gearrard
15 taking other information and just doing mathematical
16 calculations, but we need to be able to understand what
17 this is and go back and see if it's correct.

18 MR. GEARRALD: Sure.

19 MR. CAMERINO: And, I would like to make
20 sure the witness understands what these numbers are and
21 where they come from.

22 MR. GEARRALD: Yes. Certainly.

23 MS. HOLLENBERG: May I have a copy as
24 well of the document please?

[WITNESS: Ahern]

1 MR. GEARRALD: Certainly.

2 CHAIRMAN IGNATIUS: Yes. Let's make
3 sure that every time you start working with a new document
4 that you, if it's testimony, obviously, you can just cite
5 to where it is and -- but, otherwise, not. And, we don't
6 have any of the discovery materials, so, we don't know
7 what you're talking about either.

8 MR. GEARRALD: Thank you.

9 MR. CAMERINO: And, just to be clear,
10 these are two different documents.

11 MR. GEARRALD: I'm only marking the one
12 that has them in the same order as in her chart.

13 MR. CAMERINO: Maybe, and I apologize,
14 Chairman, but, if he could even just read into the record
15 which document is being referred to, --

16 MR. GEARRALD: Certainly.

17 MR. CAMERINO: Because these are
18 similar.

19 MR. GEARRALD: Certainly. Thank you.
20 This document that I'm referring to is a "Comparison of
21 Pauline Ahern recommended returns on equity and authorized
22 returns on equity for period 2000 to the present, as
23 contained in response to Town of Hampton Request Number
24 1", which is now Exhibit 26.

[WITNESS: Ahern]

1 CHAIRMAN IGNATIUS: So, you took 26, and
2 then you developed your own, which was her materials, you
3 developed your own chart, pulling out certain information
4 and created what you're now looking at?

5 MR. GEARRALD: Yes.

6 CHAIRMAN IGNATIUS: Okay. Continue.

7 BY MR. GEARRALD:

8 Q. So, Ms. Ahern, are we on the same page?

9 A. I think so. I have one comment about the chart,
10 though, as well as Exhibit 26. If I may ask a
11 question?

12 Q. Well, may I --

13 A. Well, are these all of them?

14 Q. These are --

15 MR. GEARRALD: I'm happy to clarify.
16 These are all the ones on that Exhibit 26 where an ROE was
17 recommended by Ms. Ahern, and where she has a range, we
18 have done a midpoint between those two, the average
19 between the two, for the Ahern recommended, there's one
20 figure. And, then, there's an ROE authorized percentage,
21 which comes when a commission has given an authorized ROE,
22 and not all of them on the list did. We have listed that,
23 corresponding to the same line.

24 CHAIRMAN IGNATIUS: All right. If

[WITNESS: Ahern]

1 you're going to start looking at it, why don't we mark it
2 for identification and give the Commissioners a copy as
3 well. And, if you end up not wanting to use it and want
4 to withdraw it, that's fine.

5 So, we'll mark that for identification
6 as "27".

7 (The document, as described, was
8 herewith marked as **Exhibit 27** for
9 identification.)

10 BY MR. GEARRALD:

11 Q. So, Ms. Ahern, do you now understand what the basis is
12 for this document?

13 A. Yes.

14 Q. If this document is accurate from the chart, which is
15 Exhibit -- your response to Hampton 4-1, and you take
16 the difference between the ROE that you recommended in
17 these cases and -- that, and the ROE that was actually
18 authorized by commissions, and you add all those
19 differences up, the average difference is minus
20 1.44 percent, correct?

21 A. I will agree that the math is correct. But you're not
22 comparing apples and apples. My recommended ROEs are
23 based on an analysis of the market data of whatever
24 proxy group I was using. The authorized ROEs, the

[WITNESS: Ahern]

1 majority of them, are settled or negotiated ROEs, which
2 may or may not have been based on the records. I'm not
3 necessarily party to the settlements.

4 Q. But, nevertheless, those are still, from your chart --

5 A. They are authorized.

6 Q. -- as what was authorized by commissions?

7 A. That's correct. And, those that were litigated were --
8 are, you know, purportedly based on evidence in the
9 record, and, therefore, in some way, shape, or form
10 based -- are market-based.

11 Q. But your --

12 A. I already agreed the math is correct.

13 MR. GEARRALD: Thank you. I'd like that
14 as a full exhibit please.

15 CHAIRMAN IGNATIUS: We've marked it for
16 identification as "Exhibit 27".

17 MR. GEARRALD: That's all the questions
18 I have of Ms. Ahern.

19 CHAIRMAN IGNATIUS: All right. Ms.
20 Hollenberg, questions? Oh, I'm sorry, before we go to
21 you, Mr. Ratigan, I'm glad you're able to join us, I know
22 you had another commitment this morning. Did you have
23 questions for this witness?

24 MR. RATIGAN: No.

[WITNESS: Ahern]

1 CHAIRMAN IGNATIUS: All right. Ms.
2 Hollenberg.

3 MS. HOLLENBERG: Thank you. Just one
4 question. Actually, it may be a few, just to develop the
5 question.

6 BY MS. HOLLENBERG:

7 Q. Ms. Ahern, as I understand it, according to your
8 corrections, the range for the DCF calculation is 9.3
9 -- for your corrected correction of Mr. Parcell's DCF
10 calculation, it's 9.32 to 9.54 percent, is that
11 correct?

12 A. That's correct.

13 Q. With a midpoint of 9.43 percent?

14 A. Correct.

15 Q. Okay. And, do you recall that Mr. Parcell's range for
16 the DCF calculation was 9.0 to 9.6 percent?

17 A. Yes, I do.

18 Q. And, that his midpoint was 9.3 percent, is that
19 correct?

20 A. Yes. Yes, without -- subject to check.

21 Q. Subject to check.

22 A. Yes, I believe so.

23 Q. And, I can direct you. Actually, it's on his Page 3,
24 he had a summary --

[WITNESS: Ahern]

1 A. Right.

2 Q. -- of his recommendations at Line 5. So, I want to
3 just ask you a mathematical question that I hope is a
4 simple one, to just calculate the midpoint of the two
5 midpoints. And, that would be 9.3, plus 9.43, divided
6 by two. Would you agree that's 9.365 percent?

7 A. I would agree, subject to check. I don't have a
8 calculator, but, yes.

9 MS. HOLLENBERG: Here it comes.

10 (Atty. Gearrald handing calculator to
11 the witness.)

12 WITNESS AHERN: I guess I'm checking.
13 Wow! That's a big one. Our founder had a big one like
14 this, too, because he used to calculate with a cigarette.

15 FROM THE FLOOR: The old days.

16 **BY THE WITNESS:**

17 A. Yes. 9.365.

18 MS. HOLLENBERG: Thank you so much. No
19 other questions.

20 CHAIRMAN IGNATIUS: I'm sorry. Help me
21 again, I got lost there. 9.365 is what?

22 MS. HOLLENBERG: I was asking for the
23 midpoint of the two midpoints of the two experts in this
24 case. And, it was 9.365 percent. Thank you. No other

[WITNESS: Ahern]

1 questions.

2 CHAIRMAN IGNATIUS: Thank you.

3 Ms. Brown?

4 MS. BROWN: The Staff has no questions.

5 CHAIRMAN IGNATIUS: Questions from
6 Commissioners? Commissioner Harrington? Commissioner
7 Scott?

8 CMSR. SCOTT: Thank you.

9 BY CMSR. SCOTT:

10 Q. I'll have to admit, when we talk about beta size,
11 *etcetera*, I get a little bit over my head. But, on
12 your risk adjustments, --

13 A. Oh, yes.

14 Q. -- financial and business, my question is, does that
15 take into account the presence of a WICA Program?

16 A. No, it doesn't. And, the reason is, it's my opinion
17 that the presence of a WICA Program really has no
18 affect on the common equity risk. There's plenty of
19 empirical research out there, both by Moody's, by AUS
20 Consultants, and by Brattle Group, that have studied,
21 while they're not the same, has studied decoupling
22 mechanisms, cost pass-throughs, margin trackers and
23 things like that, and their affect on the cost of
24 equity and their affect on the credit of Moody's, their

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1 credit metrics, the volatility of credit metrics. And,
2 they show that there is no effect, in terms of basis
3 points. They're actually -- Moody's shows that the
4 credit metrics for decoupled firms is higher.

5 And, it's pertinent to the WICA
6 discussion, because decoupling mechanisms affect a
7 greater percentage of the revenues and tend to
8 stabilize revenues and gross profits to a greater
9 extent than WICA and DSIC like programs, too, because
10 they're capped, in this case, at the seven and a half
11 percent. So, it does not reflect that.

12 Q. I'm digesting.

13 A. Maybe a little bit, theoretically, WICA programs and
14 decoupling mechanisms reduce the volatility of your
15 revenues and your mid -- gross profits. Volatility is
16 a measure of risk. So, it can reduce the risk in your
17 revenues and your gross profits. That does not
18 translate down to a reduction in the volatility of
19 earnings or of cash flows. And, our study looked
20 specifically at the volatility of market prices and
21 equity risk premiums before and after decoupling, and
22 we found no statistically significant difference in the
23 volatility, which means there's no difference in the
24 investor perception of risk due to a decoupling

[WITNESS: Ahern]

1 mechanism. And, again, to reiterate, because they
2 affect revenues to a greater extent than WICA Programs
3 do. If they don't have an effect, how would a WICA
4 Program, which is -- would have less of a volatility
5 reduction, because it affects so small a portion of
6 revenues.

7 Q. So, is there, having said that, is there, maybe it's
8 not in the risk factor, the risk calculation that you
9 use, is there a benefit that a WICA would have as far
10 as ROE?

11 A. Is there a benefit? Well, the one benefit it would
12 have is that, because the -- it has a benefit in that
13 the infrastructure is being replaced periodically and
14 gradually, with reduced rate shock. Chairman Powelson,
15 in Pennsylvania, has testimony before the House,
16 showing what it does, and actually kind of rebutting
17 some of what we heard yesterday.

18 And, if the Company, hypothetically, if
19 the Company was going to put in a total of 1.5 million
20 in gradual improvements over the next five -- before it
21 hit the seven and a half percent of cap, it would put
22 them in in current dollars, today's dollars, what it
23 puts in this month would be in today's dollars, and
24 next month in next month's dollars, inflation-adjusted.

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[WITNESS: Ahern]

1 If they waited to put the sum of that 1.5 million in
2 when they came up against the next rate case, which is
3 what is very common, lumpy investment, when you don't
4 have a WICA-like mechanism. That 1.5, because of
5 inflation, may actually be 1.75, 1.8, I don't know what
6 the numbers would be, but it would be a greater amount.

7 I think there was a question yesterday,
8 "what happens when things get set to zero and you're
9 still earning the WICA surcharge?" That's not the way
10 I understand it works. They'll earn a surcharge on the
11 WICA investments, if it gets set to zero, they become
12 part of the rate base next time. If they expend 1.5
13 million gradually, your rate base is going to increase
14 by 1.5. If they put it all, lump it at the end of the
15 test year, because of inflation, that's going to be a
16 greater dollar amount expended in a shorter period of
17 time, the rate base is going to be higher, and you're
18 going to have to finance that somehow. And, you're
19 going to get an effect on the weighted cost of the ROE
20 and you're going to have a higher rate base to which
21 you're going to apply the ROE.

22 CMSR. SCOTT: Okay. Thank you.

23 WITNESS AHERN: Okay.

24 CHAIRMAN IGNATIUS: A couple of

[WITNESS: Ahern]

1 questions please.

2 BY CHAIRMAN IGNATIUS:

3 Q. On the -- you corrected the numbers because of the
4 discovery of one company that just hadn't been put in
5 right.

6 A. Right.

7 Q. And, so, the end result, as you looked at a DCF, was to
8 get to a midpoint of 9.43. And, then, at Page 49, you
9 summarize with additional adders you put on for
10 financial risk and for business risk on top of where
11 you already were. Can you walk me through what each of
12 those are designed to account for?

13 A. Okay. I'd be happy to.

14 Q. And start with financial risk.

15 A. Okay. Let me --

16 Q. Page 49 of Exhibit 8.

17 A. Okay. Before I explain the two adjustments, Mr.
18 Parcell's common equity cost rate, and then my
19 "corrections" of his analyses, are based -- is based
20 upon the market data of a proxy group of what he
21 calls --

22 (Court reporter interruption.)

23 **CONTINUED BY THE WITNESS:**

24 A. A proxy group, I said, of nine water companies he calls

[WITNESS: Ahern]

1 the "Value Line Water Group". The market data of those
2 companies, on average, reflect the risk profiles of
3 those companies. And, one of those profiles is
4 financial risk. They, on average, Mr. Parcell has put
5 a -- common equity ratios for the Company in there,
6 which he sources as AUS Utility Reports, that's an
7 apple and oranges comparison, this company is not
8 including short-term debt in its filing. Those ratios
9 include short-term debt. The proper comparison is on
10 one of my schedules. The proper comparison for
11 financial risk purposes, the -- and he's recommending
12 41.25 or 26, the Company is settling at 40.75, is to
13 the capital structures of the proxy group, which you
14 can find on my Attachment PMA-10, based on what's
15 called "permanent capital", which doesn't include
16 short-term debt. For 2011, those companies averaged a
17 common equity ratio of 49.13 percent. They were less
18 highly leveraged, less leveraged than Aquarion New
19 Hampshire. In fact, Aquarion New Hampshire, at around
20 60 percent debt, would be considered "significantly
21 leveraged" by S&P. These companies are considered to
22 be "intermediate leveraged".

23 Financial -- and, I also point out, I
24 didn't get the chance to point it out before, but the

[WITNESS: Ahern]

1 sister company, Aquarion Connecticut, has a Moody's
2 bond rating of Baal. If Aquarion New Hampshire's bonds
3 were rated by S&P, a significant financial risk
4 profile, they would have to have an excellent business
5 profile assigned by S&P. That can be found in one of
6 my exhibits as well. The only way they could have an
7 investment grade bond rating would be to have an
8 excellent business position with their level of debt.
9 So, they are highly leveraged. They have a greater
10 degree of financial risk. This is all preamble to the
11 adjustment.

12 Q. But does financial risk, is that the ability of the
13 Company to obtain debt financing?

14 A. Yes, and at a reasonable cost. But it is also, if
15 you're going to apply a common equity cost rate based
16 on the market data of one group with a certain risk
17 profile, either a financial risk or a business risk,
18 apply it to another company with a different risk
19 profile, either financial risk or business risk, you
20 need to make some sort of adjustment. You need to do a
21 relative risk analysis between the proxy companies and
22 their risk, and your -- whoops, excuse me -- your
23 individual, the Company you're regulating.

24 Having said all that, the financial risk

[WITNESS: Ahern]

1 adjustment of 86 basis points is based upon financial,
2 kind of wonky thing called the "Hamada", H-a-m-a-d-a,
3 "Equation". Where you make the adjustment based on a
4 CAPM analysis, the beta is also reflective of a company
5 with the lower financial risk, like they have a lower
6 beta than the company with a higher financial risk.
7 How I made it is described, I won't go through the
8 details. And, that resulted in a 86 basis point
9 adjustment, based on my correction of his CAPM. It
10 might be less based on his, but it could be as much as
11 86 basis points.

12 Q. So, what's an example of what a company would face if
13 it has a financial risk that you find for Aquarion
14 Water Company?

15 A. What would it face?

16 Q. What's the real-life consequence of what you're
17 perceiving it's financial risk to be and why you made
18 that adjustment?

19 A. Well, the real-life consequence is that, when it
20 attracts capital, it attracts it at a higher cost than
21 it otherwise would.

22 Q. And, do we have evidence that it has not been able to
23 obtain reasonable financings?

24 A. No. I think you need to talk to Mr. Dixon about the

[WITNESS: Ahern]

1 terms of their financing. I looked at some of the
2 earlier long-term debt issues, and their cost rates at
3 the time they were issued, and they were favorable, but
4 I believe there may have been certain conditions about
5 the particular bonds, if you're investing in industrial
6 development bonds or state revolving fund bonds, that
7 sort of thing. But this Company, if it were to go out
8 to the market, you know, as a -- totally as a
9 stand-alone, and with this leverage, and with the
10 actual earnings that they have had, you know, the low,
11 I think he said 3.9 something return on equity, they,
12 you know, if they were stand-alone, they would be
13 totally hard-pressed.

14 Q. Although, they're not stand-alone?

15 A. They're not. But it is the use of the funds, not the
16 source of the funds that gives rise to the risk of the
17 investment, which is why you need to reflect the
18 financial risk of this Company, as well as the business
19 risk.

20 Q. Are you saying we're supposed to ignore the reality
21 that it's part of a larger organization, and, as they
22 said, when they need to undertake investments, they
23 first start with short-term borrowing from the parent?

24 A. Well, the fact that they can borrow short-term from the

[WITNESS: Ahern]

1 parent, and they are able to get favorable terms
2 because of that relationship, they also are able to get
3 some of the, I'll say, service expenses, you know,
4 shared services from the Company -- you know, from the
5 parent, which it would cost more if they had to hire
6 people full time, which they maybe share right now. It
7 mitigates the effect of the risk. It doesn't eliminate
8 the risk. So, they already benefit from that. But the
9 equity investor, you know, should not be penalized
10 because of that benefit. I'm just -- you know, my job
11 is, well, I wasn't asked to here, but my job, the job
12 of any rate of return analyst, is to evaluate what the
13 common equity investor, I mean, it's easy -- we do the
14 total rate of return, too, but it's easy to come up
15 with a debt cost rate and the overall. Our job is to
16 assess what the markets would require, what an investor
17 in the market would require, of this company, any
18 regulated utility, as a stand-alone utility. There is
19 no difference in the operations and in the risk of a
20 company, like Aqua New Hampshire, if you had another
21 company side-by-side -- I mean Aquarion New Hampshire,
22 if you had another company side-by-side that was
23 publicly traded, it makes no sense that they would have
24 a different common equity cost rate than Aquarion New

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[WITNESS: Ahern]

1 Hampshire, just because its investor is Aquarion
2 Company.

3 Q. All right. Let's look at the business risk adjustment.

4 A. Okay. Okay, that one is based on size. Size is a
5 factor in risk, there's plenty of empirical support for
6 that. Ibbotson itself has done studies where the
7 Capital Asset Pricing Model over time, the actual
8 returns that smaller companies earn in the market are
9 greater than the returns that are predicted by the
10 Capital Asset Pricing Model. Companies of smaller size
11 have less financial flexibility, they sometimes have
12 less liquidity. They cannot withstand a major event.
13 They're not as diversified as larger -- the larger
14 firms. And, therefore, you need to look at the
15 relative -- and, it's one of the factors of business
16 risk that has been empirically determined, you know,
17 quantified. You can determine the basis point
18 difference. You can do that by looking at the Ibbotson
19 study. They separate all the firms traded in this
20 country into ten deciles. And, they look at the
21 difference between the -- what the Capital Asset
22 Pricing Model says the return should be and what these
23 companies have earned. And, that's their risk premium
24 for size. And, they found that going down towards the

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1 smaller ones, smaller decile -- the deciles with the
2 smaller companies, the premiums increase. And, I've
3 just taken a relative difference between the premium
4 that exists for the larger proxy group, average company
5 in the proxy group, and for Aquarion.

6 I haven't done it in this case, but Duff
7 & Phelps also has quite an extensive size study, where
8 they also looked at number of customers, total assets,
9 number of employees even, sales, they looked at some
10 fundamental accounting metrics, not just market
11 capitalization. And, they also determined that there
12 is a need for -- that smaller companies are of greater
13 risk and there should be a size premium.

14 Q. In New Hampshire, we have numerous water companies with
15 far fewer customers, and ROEs in the 9.75 range. So,
16 following your logic, shouldn't yours be lower,
17 because, although you may be smaller than larger
18 companies, you're a lot larger than the small companies
19 where we found that the 9.75 range is just and
20 reasonable?

21 A. Well, I maintain 9.75 -- in my studies, I do not find
22 that 9.75 is what the investors are requiring.

23 Q. I wanted to ask you a little bit more of what
24 Commissioner Scott asked you about, the WICA, and how

[WITNESS: Ahern]

1 it has no effect on improving the risk profile of a
2 company. And, it's a hard one for me to understand,
3 because it seems to me we've -- we've often been told
4 that companies need higher ROEs, in part, because of
5 regulatory lag --

6 A. Uh-huh.

7 Q. -- and because of the difficulty of the uncertainty
8 about investment in a state where
9 Construction-Work-in-Progress is not authorized.

10 A. Right.

11 Q. And, so, to -- I guess I had always assumed that a WICA
12 is designed, and in similar adjustors in other
13 industries that we have, the WICA is designed to help
14 with that by having a quicker recovery of those
15 investments into rate base, and helping to reduce the
16 risk of the company of not being able to recover those
17 investments. So, I just am surprised every time I hear
18 the Company say that it's immaterial on the question of
19 risk.

20 A. Well, I'm not so sure it's -- there's a risk of them
21 not recovering them. I think they're going to recover
22 those investments, because they're going to be made,
23 whether they're made sequentially and gradually, or
24 they're made at a point in time in the future.

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[WITNESS: Ahern]

1 Infrastructure repair and replacement has to be done,
2 it's not discretionary.

3 WICA-type mechanisms are a win/win for
4 everybody. The Company gets to, you know, plan
5 gradually, gets to recover gradually. They still, as
6 Mr. Dixon said, have the risk of having to finance
7 those CapEx, whether over time or later. And, it also
8 -- it does improve the -- it has been proven in
9 Pennsylvania that it does improve the quality of
10 service and the reliability, as Chairman Powelson
11 stated before the House. And, in Pennsylvania, they
12 have found that it has -- they've had a WICA or a DSIC
13 mechanism in place since 1997. And, it's been cited by
14 S&P as being, you know, a national standard. They had
15 -- they do not do a deduct on the ROE for it. No
16 state, I'm not aware of any state which has any of
17 these methods, any, a DSIC, WICA, or SIC in Arizona, or
18 they're hoping to get one, makes a deduct on the ROE.
19 In Pennsylvania, they have found that it has decreased,
20 over those 16 years it's been in effect, the length of
21 time between rate cases -- or, increased, I'm sorry,
22 the length of time, decreased the number of rate cases
23 in a given period. And, he cited in his testimony,
24 relative to Pennsylvania, his testimony before the

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1 House, but relative to Pennsylvania American Water,
2 before they had the DSIC in place, they estimated that
3 it was going to take 225 years to replace or repair the
4 entire system. Since DSIC has been in place, that has
5 been reduced to 117 years. In Pennsylvania, it's also
6 created jobs. Instead of, you know, creating a bunch
7 of jobs at one time, every three years or five years,
8 it creates, you know, he says a hundred jobs, you know,
9 for a utility, or maybe of the size of Pennsylvania
10 American, on a continual basis, permanent jobs. So,
11 they found the benefit. I think we heard this morning
12 about NARUC, NARUC, the Water Committee, of which
13 Chairman Powelson is now Chairman, a few years ago,
14 when Mr. Butler, Fred Butler was Chairman, they passed
15 a resolution, I believe in July of 2005, where
16 WICA/DSIC mechanisms were a "best practice".

17 So, there's -- and, all of that inures
18 to the ratepayer as well, almost acts like an insurance
19 policy. Because if I have, say, I got a pipe in front
20 of my house, and they come in and replace it, say it's
21 a 50, 60 year old pipe, I can be assured that I have a
22 less risk of that pipe bursting, you know, or leaking
23 or having some sort of catastrophic event if a new pipe
24 is put in. I'll know that I can, you know, turn my

[WITNESS: Ahern]

1 water on and turn the tap on and the water will come
2 out.

3 The other issue about risk and the ROE
4 is that I can't deny that there isn't a reduction in
5 volatility of revenues, and, theoretically, there
6 should be an effect on risk. But it's kind of like the
7 Prego spaghetti sauce, there's -- everything is in
8 there. If you're going to take a deduct for WICA, you
9 know, what about the -- there's no change in the
10 volatility, the volatility of your costs between rate
11 cases may change. A lot can happen between, you know,
12 revenues coming in, and then them being realized.
13 You're going to authorize a return here. Say -- I'm
14 going to say, hypothetically, go right out of the
15 ballpark, 20 percent. Say you authorized an ROE of
16 20 percent. The return isn't as important as being
17 able to earn it.

18 I was sitting at NAWC once and somebody
19 said "we need to get higher ROEs." I'm saying, "it
20 doesn't matter, you're not earning your ROEs now." If
21 you can't earn at 10 percent, how are you going to earn
22 at 15. You're just going have a bigger shortfall.
23 And, WICA and all these mechanisms are one means by
24 which, you know, regulators can kind of ensure that --

[WITNESS: Ahern]

1 kind of help a utility to earn its return. Kind of
2 goes back to Hope and Bluefield. Hope and Bluefield
3 says that a sufficient return, a fair rate of return is
4 a return that, you know, commensurate with firms of
5 similar risk, should enable companies to maintain the
6 integrity of their invested capital, attract capital.
7 And, we tend to dwell on the level of that return.
8 Therefore, we need a return of 50 percent, you know,
9 whatever. But, in my opinion, it also means that many
10 of these mechanisms, it's incumbent to, you know,
11 enable the Company to earn that return, and these
12 mechanisms do that.

13 CHAIRMAN IGNATIUS: All right. Thank
14 you. Mr. Taylor, any redirect? I'm sorry, Mr. Camerino?

15 MR. CAMERINO: A few brief issues. And,
16 just to be clear, these follow up on questions from the
17 Bench, if that's okay?

18 CHAIRMAN IGNATIUS: That's fine.

19 MR. CAMERINO: Okay.

20 **REDIRECT EXAMINATION**

21 BY MR. CAMERINO:

22 Q. Ms. Ahern, you were asked about the financial risk
23 adjustment?

24 A. Yes.

[WITNESS: Ahern]

1 Q. I take it that, and you were talking about risk to debt
2 holders, but the adjustment is intended, is it not, to
3 reflect the risk to the equity holders?

4 A. Yes. Well, I was talking with Mr. Ferron [sic] about
5 the bond ratings reflecting an assessment of risk to
6 bondholders.

7 Q. Let me --

8 A. But there also needs an equity portion, too.

9 Q. My question is about the financial risk adjustment that
10 you were asked from the Bench about.

11 A. Right.

12 Q. The adjustment is to reflect risk to equity holders.

13 A. Correct.

14 Q. Why would equity holders have more risk as the amount
15 of debt increased, --

16 A. Oh.

17 Q. -- conceptually?

18 A. Oh, okay. Because they are last in line in any claim
19 on the assets and earnings of a firm, the debt holders
20 are going to be made whole first. And, as we heard
21 yesterday, Mr. Dixon said that, because the earnings
22 are so low, they haven't paid a dividend in, I don't --
23 I think he said since 2010. They -- if the Company
24 goes bankrupt, the equity holders get nothing,

[WITNESS: Ahern]

1 absolutely nothing.

2 Q. Okay. And, then, with regard to the small company
3 adjustment that you referred to, the business risk
4 adjustment, when you say a company is "small", one
5 measure of "small" is presumably the number of
6 customers, is that correct?

7 A. Sure.

8 Q. Another measure might be the number of communities in
9 which the Company does business?

10 A. Yes.

11 Q. And, would an example of a risk that a company that
12 does business in relatively few communities, would that
13 one example be that a significant tax increase in that
14 town could have a substantial impact on its ability to
15 earn in between cases?

16 A. Absolutely.

17 MR. GEARRALD: Objection. We've gone
18 way beyond what the Commission asked here in --

19 CHAIRMAN IGNATIUS: Well, there was -- I
20 think you testified to that in your prefiled, the ability
21 of a municipality, in the context of small companies, to
22 respond to a tax event in that municipality.

23 WITNESS AHERN: Yes.

24 BY MR. CAMERINO:

[WITNESS: Ahern]

1 Q. And, so, is that type of risk of an event that, in a
2 company that does business in more communities might
3 not face, is that the kind of risk that is being
4 quantified by that adjustment?

5 A. Yes.

6 Q. Lastly, you were asked about the WICA adjustment. And,
7 I want to, in that context, I want to ask you, you and
8 Mr. Parcell used the same proxy group of companies for
9 your DCF, correct?

10 A. Well, I didn't do a DCF. Yes, I used his companies.

11 Q. Okay.

12 A. Right.

13 Q. So, both of your testimonies refer to the same proxy
14 group?

15 A. Correct.

16 Q. And, just briefly describe, what is the purpose of
17 selecting a proxy group?

18 A. The purpose of selecting a proxy group is to select a
19 group of companies as similar in risk as possible to
20 the regulated utility. However, that is nearly
21 impossible to do in any, whether it's electric, gas or
22 water. And, it's almost impossible in water because
23 there are so few companies who have market data that
24 can be used. So, most practitioners use either all of

[WITNESS: Ahern]

1 the companies or the majority of the ones that
2 Mr. Parcell uses.

3 Q. And, so, when you made those two adjustments, business
4 risk and financial risk, those are, if I understand it,
5 because there is a substantial difference in your
6 opinion from the proxy group?

7 A. Yes.

8 Q. Okay. With regard to the WICA, do you know how many of
9 the nine companies in the proxy group do business in
10 states that have WICAs so that that is reflected for
11 those companies already?

12 A. Off the top of my head --

13 Q. I can provide you --

14 A. Okay. Most of them. I think there may be one or two
15 that don't.

16 Q. Do you want me to provide you with the list of
17 companies?

18 A. Sure. Sure.

19 (Atty. Camerino handing document to the
20 witness.)

21 WITNESS AHERN: Thank you.

22 MR. GEARRALD: Do you have a copy of
23 that?

24 MR. CAMERINO: I don't, actually. But

[WITNESS: Ahern]

1 I'd rather --

2 MR. GEARRALD: I don't know think this
3 is in evidence.

4 WITNESS AHERN: I can just read which
5 ones do and don't.

6 MR. CAMERINO: Let me just clarify what
7 I've shown her.

8 WITNESS AHERN: Yes.

9 MR. CAMERINO: I'm sorry, because I
10 don't want to overreach. I'm providing Ms. Ahern with a
11 document that she provided to me, not something that I
12 prepared. It also has my notes on it. I'm happy to share
13 those, but I don't want to, as I said, overstep --

14 CHAIRMAN IGNATIUS: Well, let me ask a
15 different question. I thought you were just showing her
16 the nine companies that both Mr. Parcell and Ms. Ahern
17 were looking at in the DCF study, is that correct?

18 MR. CAMERINO: What I'm showing her is a
19 list that Ms. Ahern prepared of the nine companies, and
20 indicates, for each company, which ones do and don't have
21 WICAs in the various states in which they do business.
22 It's a document that she prepared.

23 CHAIRMAN IGNATIUS: All right. But the
24 list of companies is known by all, correct?

[WITNESS: Ahern]

1 MR. CAMERINO: Correct.

2 CHAIRMAN IGNATIUS: So, can we do it
3 without the piece of paper, not worry about that, and just
4 discuss whether or not the nine companies have WICAs?

5 WITNESS AHERN: I can tell you which
6 ones.

7 MR. CAMERINO: To the extent that she
8 recalls. The point of this was to help --

9 WITNESS AHERN: Me recall.

10 MR. CAMERINO: -- with her recollection
11 of what she had said previously to me.

12 CHAIRMAN IGNATIUS: All right. Go
13 ahead.

14 MR. CAMERINO: It's her work. But I
15 also -- I don't want to --

16 WITNESS AHERN: I'll just read in who
17 has, which states have, which companies have.

18 CHAIRMAN IGNATIUS: I think that's --
19 I'll allow that.

20 MR. GEARRALD: I don't believe her
21 testimony here, already filed or as changed today,
22 discusses WICA risk at all.

23 CHAIRMAN IGNATIUS: No, but --

24 MR. GEARRALD: It doesn't even mention

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1 "WICA".

2 CHAIRMAN IGNATIUS: But she was asked a
3 number of questions from Commissioner Scott and myself
4 about the relationship between WICA and risk. So, I think
5 it's appropriate to allow her --

6 MR. GEARRALD: Thank you.

7 CHAIRMAN IGNATIUS: -- to go a little
8 further.

9 BY MR. CAMERINO:

10 Q. So, the question again is simply, do you know in what
11 -- of the nine companies, which ones do business in
12 states that have WICAs?

13 A. Okay. Would you like me to list them or just tell the
14 number?

15 Q. Just give us the number.

16 A. Double checking. Six of the companies.

17 Q. So, the proxy group that Mr. Parcell and you used to
18 develop your DCF already reflects six companies that
19 have WICAs?

20 A. Correct. And, that would --

21 MR. GEARRALD: Objection. I think the
22 testimony was in what states that have WICAs, not which of
23 the nine themselves have WICAs.

24 CHAIRMAN IGNATIUS: I agree. That was

[WITNESS: Ahern]

1 the question.

2 MR. CAMERINO: I'll rephrase the
3 question.

4 BY MR. CAMERINO:

5 Q. Do business in states that have WICAs?

6 A. Six companies.

7 Q. Okay. Thank you.

8 A. And, to the extent, what that goes to is, again, on the
9 relative risk analysis, one compares the -- or, I
10 should say, the existence of WICA, for those six
11 companies, is reflected, if you're going to accept that
12 there needs to be or there is a measurable risk
13 reduction, it's already reflected in the market data of
14 60, you know, percent of the --

15 (Court reporter interruption.)

16 **CONTINUED BY THE WITNESS:**

17 A. -- 60 percent of the proxy companies.

18 CHAIRMAN IGNATIUS: Well, let me -- let
19 me clarify that, because you just said two different
20 things, and it may be between the question and the answer.
21 Do you know that the six companies in the proxy group
22 actually have WICAs in place or simply that the states
23 they operate in allow WICAs for some companies, but not
24 necessarily those?

[WITNESS: Ahern]

1 WITNESS AHERN: No. This is based on
2 looking at their 10-Ks and knowing that they have them in
3 place.

4 CHAIRMAN IGNATIUS: Thank you.

5 BY MR. CAMERINO:

6 Q. One line of questioning on a different topic.

7 Mr. Gearrald showed you an Exhibit Number 27 with the
8 averages reductions from your recommended ROEs.

9 A. Uh-huh.

10 Q. Do you recall that?

11 A. Yes.

12 Q. Your recommended ROE, according -- and I understand
13 that it's in rebuttal, but the figure that is in your
14 testimony from your calculations was "11.17 percent",
15 correct?

16 A. Yes. As corrected, yes.

17 Q. As corrected. And, if you look at the last page of Mr.
18 Gearrald's Exhibit 27, do you see that the average
19 reduction he refers to is "1.44 percent"?

20 A. Yes.

21 Q. And, if you would just do the math, 11.17 percent minus
22 1.44 percent is how much?

23 A. Okay. 9.73.

24 MR. CAMERINO: Thank you.

[WITNESS: Ahern]

1 WITNESS AHERN: 9.73 percent.

2 MR. CAMERINO: That's all.

3 CHAIRMAN IGNATIUS: Thank you. All
4 right. Then, Ms. Ahern, you're excused. Thank you.

5 WITNESS AHERN: Thank you.

6 CHAIRMAN IGNATIUS: Now, do we move to
7 Mr. Parcell?

8 MR. GEARRALD: Yes, we would.

9 CHAIRMAN IGNATIUS: All right. And, let
10 me just go off the record one minute.

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

13 CHAIRMAN IGNATIUS: Please proceed.

14 (Whereupon *David C. Parcell* was duly
15 sworn by the Court Reporter.)

16 **DAVID C. PARCELL, SWORN**

17 **DIRECT EXAMINATION**

18 BY MR. GEARRALD:

19 Q. Mr. Parcell, could you please state your name for the
20 record.

21 A. Certainly. My name is David C. Parcell, P-a-r-c-e-l-l.

22 Q. And, what do you do for a living, Mr. Parcell?

23 A. I'm an economist, a financial economist. And, I do
24 analyses of the cost of capital for public utilities,

[WITNESS: Parcell]

1 primarily.

2 Q. And, how many years have you been in this business?

3 A. I've been in this business since about 1970, and I've
4 been testifying since 1972.

5 Q. Ms. Ahern mentions in her testimony that she is a
6 member of the Certified Rate of Return Analysts. Are
7 you also a member?

8 A. Yes.

9 Q. And, are you, in fact, a founding member of that group?

10 A. Yes.

11 Q. Have you published any work in connection with that --
12 what is the group that's involved in the Certified Rate
13 of Return Analysts?

14 CHAIRMAN IGNATIUS: And, before you go,
15 Mr. Gearrard, I know you're not a common practitioner
16 here. We generally don't go through the prefiled
17 testimony. If he wants to give a very brief summary,
18 that's fine.

19 MR. GEARRALD: We will.

20 CHAIRMAN IGNATIUS: But we have his, we
21 read his material, he doesn't need to restate them.

22 MR. GEARRALD: Sure.

23 BY MR. GEARRALD:

24 Q. Are you -- you're the author of the publication for

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1 that group?

2 A. I am.

3 Q. And, that is what?

4 A. It's a study guide for the Certified Rate of Return
5 Analysts Program. It's called "The Cost of Capital: A
6 Practitioner's Guide."

7 Q. Water utilities, are they among a larger group of
8 utilities that you have conducted work concerning cost
9 of capital?

10 A. I would say so. I haven't tabulated them. But I've --
11 (Court reporter interruption.)

12 **BY THE WITNESS:**

13 A. I haven't done a tabulation, but I would estimate that
14 I have been between 50 and 75 cost of capital
15 testimonies for water utilities.

16 BY MR. GEARRALD:

17 Q. What other utilities have you testified about?

18 A. Electric utilities, both integrated and transmission;
19 natural gas pipelines, natural gas distribution;
20 petroleum or so-called "products" pipelines;
21 telecommunications. I've also done cost of capital
22 analyses for insurance companies.

23 Q. And, Mr. Parcell, among the utility industry on which
24 you've provided testimony, who are clients, client

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1 groups that you've testified for?

2 CHAIRMAN IGNATIUS: Mr. Gearrard, I just
3 said a moment ago, we don't need to go through his
4 prefiled credentials.

5 MR. GEARRALD: Sure.

6 CHAIRMAN IGNATIUS: We've got it, we've
7 read it. It's really, if he wants to give a brief summary
8 of his testimony, --

9 MR. GEARRALD: Sure.

10 CHAIRMAN IGNATIUS: -- we allow that.
11 Otherwise, we move to cross-examination.

12 MR. GEARRALD: Okay.

13 BY MR. GEARRALD:

14 Q. Mr. Parcell, could you give the Commission a -- you
15 filed testimony in this matter January 11, 2013,
16 correct?

17 A. That is correct.

18 Q. Could you provide the Commission with a brief summary
19 of your testimony.

20 A. Certainly. I conducted studies of the cost of capital
21 and cost of equity for Aquarion of New Hampshire. My
22 recommendation for the cost of equity is a range of 6.1
23 to 9.50 percent, with a midpoint of 8.3 percent. In my
24 testimony, I used the same capital structure proposed

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1 by the Company, that's since been slightly modified.
2 And, the overall midpoint of my cost of capital
3 recommendation is 8.3 percent. I used three cost of
4 equity methods: Discounted Cash Flow, which is a range
5 of 9.0 to 9.6, a 9.3 midpoint; CAPM or Capital Asset
6 Pricing Model of 6.1 percent; and Comparable Earnings
7 of 9.0 to 10.0 percent, a midpoint of 9.5.

8 Q. Within the DCF range that you provided, is this
9 particular range at the so-called "upper range" of what
10 was available to you?

11 A. That is correct. The top DCF numbers that I developed
12 where I recommend, the overall DCF numbers were in a
13 broader range of about -- of about 7 and a half to
14 9.6 percent. And, I put a top in that range of 9.0 to
15 9.6 as a judgment factor.

16 Q. And, that's a judgment that is favorable to the
17 Company, actually, is it not?

18 A. In that it produced a higher return on equity, yes.

19 Q. Why did you feel it was appropriate, in light of the
20 Commission's previous approach to Discounted Cash Flow
21 method to average the other two methods in?

22 A. Well, there's two reasons. The first reason is I
23 traditionally use more than one method in my
24 calculations, and have done so here. And, the second

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1 reason was, unlike most cases I appear in, there was no
2 Company testimony filed first. So, I did not know what
3 methods that I'd be commenting on for the other
4 parties, including the Company. So, I wanted to cover
5 the broad spectrum of the methodology so that the
6 record got built properly.

7 Q. And, in terms of trends that you -- have you observed
8 trends in return on equity in other jurisdictions?

9 A. I have.

10 Q. And, in recommending the averaging to come out to
11 8.3 percent of the three methods, how does that result
12 reflect the trends that you've observed?

13 A. Well, the trend in authorized rates of return for
14 electric and natural gas companies, which are the two
15 types of utilities for which there's consistent data
16 sources available, have been consistently moving down
17 over the past several years. And, likewise, my
18 recommendation of 8.3 reflects a continual movement in
19 the results of the cost of equity models.

20 Q. How do rates of interest play into that?

21 A. Well, indirectly, rates of interest factor into the
22 CAPM and the -- indirectly the DCF. But, just looking
23 at interest rates as an opportunity cost, a different
24 type of cost that utilities face, they have come way

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1 down in the past three or four years, 250 basis points
2 or so.

3 Q. And, have they remained low?

4 A. Yes.

5 Q. Now, you've actually -- before we turn to your other
6 testimony, do you have some corrections yourself you'd
7 like to make, typographical changes --

8 A. Yes, I do.

9 Q. -- to your direct testimony?

10 A. Yes, please. Let's start on Page 10.

11 CHAIRMAN IGNATIUS: Is this your January
12 testimony?

13 WITNESS PARCELL: Yes, ma'am. My direct
14 testimony.

15 **BY THE WITNESS:**

16 A. On Page 10, Line 19, I make reference to "water and
17 wastewater services". I'd like to strike "and
18 wastewater". So, it just reads "water services". And,
19 on Line 25, the same correction. Strike "and
20 wastewater", so it just reads "water services". And,
21 staying on Page 10, Line 27, the fourth word in is
22 a-n-d, "and", strike that.

23 Next is on Page 14. On Page 14, Line
24 16, reference is made to the "Common Equity" ratio of

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1 "41.25", that should be "41.26".

2 And, finally, on Page 15, Line 6,
3 reference is made to the year "2011", that should be
4 "2012". Change 2-0-1-1 to 2-0-1-2. And, those are my
5 corrections to my direct testimony.

6 Q. And, turning now to your surrebuttal testimony, this
7 was testimony filed April 8, 2013?

8 A. That is correct.

9 Q. And, that would be "Exhibit 14", I believe?

10 A. Yes.

11 Q. Do you have any corrections you would like to make to
12 that?

13 A. Just one, on Page 12. On Page 12, Line 26, just past
14 halfway along that line, the word "that" appears
15 back-to-back, "that that". Change the first "that" to
16 "and", a-n-d.

17 Q. Other than those corrections, Mr. Parcell, you have no
18 changes to offer to your testimony?

19 A. That is correct.

20 Q. And, as a result of Ms. Ahern's testimony, do you have
21 any changes you would offer to your testimony?

22 A. No.

23 Q. Does -- what does --

24 A. Let me clarify. I interpret your question to mean, "in

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1 reference to Ms. Ahern's criticisms of my analyses, do
2 I have any changes?" And, the answer to that is "no".

3 Q. Okay. What -- could you please summarize for the
4 Commission what you express in your surrebuttal
5 testimony in response to hers?

6 A. Yes. And, I'm going to keep this short. Because
7 there's a lot of technical stuff here, and I don't want
8 to go through the technicalities. But, on the DCF, our
9 major difference is whether you should focus
10 exclusively -- exclusively on earnings per share
11 forecast as a growth rate or use multiple methods.
12 Ms. Ahern thinks you should use only the EPS forecasts,
13 and I say you should use different methods. However,
14 we have our pages of testimony on this subject. It
15 turns out, for the nuts and bolts of this case, it's
16 not enforced, I'm not going to emphasize it in my
17 summary. But I do feel strongly about the issue, but
18 it's not -- it's not important for the outcome here.
19 And, in fact, our CAP -- DCF results are about the same
20 right now.

21 In the CAPM, the differences are, I used
22 the current yield on treasury securities as a risk-free
23 rate. And, she maintains I should be using projected
24 yields. And, just like I don't use projected stock

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1 prices in DCF, I think it's appropriate to use the
2 current yields. And, that's what I've done. The
3 second major issue in the CAPM is that I use a
4 combination of geometric and arithmetic growth rates to
5 develop the risk premium. And, she says you should
6 only use the arithmetic. And, I've indicated why, in
7 my view, it's appropriate to use both mutual funds
8 report, geometric or compound growth rates, and Value
9 Line reports it that way. I agree that arithmetics are
10 okay to use, and I use them myself, but you should not
11 use just arithmetic.

12 Turning to Comparable Earnings, she
13 maintains that there's no relationship between the book
14 value of a -- return on book value and the
15 market-to-book ratios, and she uses a group of
16 industrials to develop that position. But, as I
17 indicate, the issue here is utilities. And, utilities
18 are regulated based upon their book value of their
19 assets and their equity, and investors know that. So,
20 it's appropriate to use book value concepts for
21 utilities.

22 And, very briefly, on the risk
23 components, the business risk and financial risk. On
24 the financial risk side, I'm using the same capital

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1 structure that the Company is using, roughly
2 41 percent. And, they have had the same capital
3 structure for at least five years. It's their choice
4 to develop a capital structure. And, in fact, in the
5 Company's filing, they did not -- did not claim any
6 adjustment for a capital structure. It's only in the
7 rebuttal that there is. I have shown in my testimony
8 that Aquarion and its sister companies are intertwined.
9 And, you really cannot make a determination that
10 Aquarion of New Hampshire's capital structure is more
11 risky without an analysis of all the other companies,
12 and they declined to provide us the information to
13 conduct those studies.

14 I would note that Aquarion of New
15 Hampshire, along with Massachusetts and Connecticut,
16 form the so-called "Aquarion Water Companies", and
17 that's dominated by, sizewise, by Connecticut. And,
18 Connecticut's about 41 percent equity ratio, too. It's
19 not that New Hampshire is different.

20 So, it's the Company's -- it's the
21 capital structure they maintain. And, in their filing,
22 they did not ask for any dispensation for it, and I
23 have not offered none, and I don't think there should
24 be any.

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1 As to the business risk, it's true
2 Aquarion of New Hampshire is a small company, but it's
3 not an entity that investors consider. It's part of a
4 huge worldwide group. And, in fact, there's no place
5 where you can buy stock. Even the big owner in
6 Australia, that's a private company.

7 MR. CAMERINO: Objection. We're beyond
8 what's in his testimony at this point.

9 CHAIRMAN IGNATIUS: I would agree with
10 that. Can we -- can you finish summarizing your rebuttal
11 testimony?

12 WITNESS PARCELL: I just did.

13 CHAIRMAN IGNATIUS: All right.

14 BY MR. GEARRALD:

15 Q. But, in the end, Mr. Parcell, you do not agree with
16 Ms. Ahern concerning the risk either of the water
17 industry as a whole or for Aquarion -- Aquarion Water
18 Company of New Hampshire itself, correct?

19 A. That is correct.

20 Q. And, you've outlined the reasons for that in your
21 surrebuttal testimony?

22 A. I have.

23 Q. And, when you ignore the risks that Ms. Ahern is
24 proposing, the extra adjustment risks, her Discounted

[WITNESS: Parcell]

1 Cash Flow range, as corrected, of 9.32 percent to 9.54
2 percent is within the same range for Discounted Cash
3 Flow that you've indicated of 9.0 to 9.6, correct?

4 A. That is correct. Our midpoints are within, I think, 12
5 or 13 basis points of each other.

6 MR. GEARRALD: Thank you.

7 CHAIRMAN IGNATIUS: Thank you. All
8 right. It's noon now. I think we should use this as a
9 convenient stopping point for a lunch break, and resume
10 with cross-examination at, and let's try to make it an
11 hour, if it runs to an hour and 15 minutes, people getting
12 back from lunch, I understand that, but let's see if we
13 can show shoot for 1:00. And, I think we will pick up at
14 that point with Mr. Camerino. Thank you.

15 (Lunch recess was taken at 12:00 p.m. to
16 end the *Morning Session of Day 2*. The
17 Afternoon Session transcript will be
18 filed under separate cover so designated
19 as "**Day 2 Afternoon Session ONLY**".)

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