

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

September 17, 2013 - 11:35 a.m.
Concord, New Hampshire

NHPUC OCT01'13 PM12:59

RE: DW 12-306
ROSEBROOK WATER COMPANY, INC.:
Notice of Intent to File Rate Schedules.
(Hearing regarding Stipulation Agreement)

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Rosebrook Water Company, Inc.:
Stephen P. St. Cyr
George Dana Bisbee, Esq. (Devine, Millimet..)
Michael Hahaj
Nancy Oleson

Reptg. Wells Fargo:
Carol Holahan, Esq. (McLane, Graf...)

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

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

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P R O C E E D I N G

CHAIRMAN IGNATIUS: Good morning. I'd like to open the hearing in Docket DW 12-306, which is involving Rosebrook Water Company, and a petition for a permanent rate increase. This hearing had been scheduled by order of notice, and then we know that on September 5th a settlement agreement was proposed and filed with us with attached calculations. And, I know this morning there's been some further discussion of some of the details, and there may be some amended documents, which is fine and we'll work our way through it. I appreciate everyone spending the time trying to iron out the final details so that we have as clean a record as possible, and not discover part way through the hearing that something isn't quite lining up.

So, let's begin first with appearances.

MR. ST. CYR: Good morning. My name is Stephen P. St. Cyr. And, with me today is Mike Hahaj. Mike is one of the directors and is the key ownership person; and Nancy Oleson, the water and wastewater operator for the Company.

CHAIRMAN IGNATIUS: Good morning. And, welcome.

MR. BISBEE: And, good morning,

1 Commissioners. Dana Bisbee, with Devine, Millimet. I
2 filed an appearance on behalf of the Company earlier in
3 this docket. And, I explained that my role was on
4 compliance-related issues, not on the rate case *per se*,
5 but that the compliance issues were wrapped into it. So,
6 that's my purpose for being here.

7 CHAIRMAN IGNATIUS: Thank you.

8 MS. HOLAHAN: Good morning. Carol
9 Holahan, from the McLane law firm, here on behalf of Wells
10 Fargo. There is an underlying petition for a stock
11 transfer in this case. And, I'm here just to monitor
12 today the proceedings with regard to --

13 CHAIRMAN IGNATIUS: I'm sorry, I'm
14 losing you.

15 MS. HOLAHAN: I'm sorry. There's an
16 underlying petition for a stock transfer. And, I am here
17 on behalf of Wells Fargo to monitor the rate case
18 proceeding today.

19 CHAIRMAN IGNATIUS: Thank you.

20 MS. BROWN: Good morning, Commissioners.
21 Marcia Brown, on behalf of Staff. And, with me today is
22 Mark Naylor, Robyn Descoteau, and Jayson Laflamme. You
23 are correct that the parties have filed a stipulation. We
24 have since changed that this morning. And, we thank you

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 for allowing us the hour and a half or so to work on that
2 change.

3 To present that stipulation, we would
4 like to propose a panel of Mark Naylor, Robyn Descoteau,
5 and Stephen St. Cyr. And, we have agreement on the
6 identification of exhibits. And, we are ready to proceed.

7 CHAIRMAN IGNATIUS: All right. That
8 sounds fine. Is there anything else preliminarily to take
9 up before we have the panel?

10 MR. ST. CYR: No.

11 CHAIRMAN IGNATIUS: Doesn't appear there
12 is. So, why don't you go ahead and seat the witnesses.
13 Thank you.

14 (Whereupon **Stephen P. St. Cyr,**
15 **Mark A. Naylor,** and **Robyn J. Descoteau**
16 were duly sworn by the Court Reporter.)

17 MS. BROWN: I'd like to just present to
18 the Commissioners the exhibits.

19 (Atty. Brown changing the thermostat.)

20 CHAIRMAN IGNATIUS: Did you see me
21 freezing? Thank you.

22 MS. BROWN: And, we will identify them
23 as we are going forward. Exhibit 1 that we'd like to have
24 marked is the February supplemental rate filing. There

1 was a filing made in November, but that was since replaced
2 by a February version. We are asking to have Tab 13 of
3 the Commission's docketbook marked as "Exhibit 1". We
4 understand, since we are identifying that as a full -- or,
5 as an exhibit that we don't need to provide the Clerk with
6 a separate copy.

7 CHAIRMAN IGNATIUS: I spaced out. Tell
8 me again. The February submission, what's the date of
9 that? Is that February 25?

10 MS. BROWN: Dated February 25, filed on
11 the 27th. And, we'd like to have that entire packet,
12 cover letter included, marked as "Exhibit 1".

13 CHAIRMAN IGNATIUS: All right. Seeing
14 no objection, that will be marked as "Exhibit 1" for
15 identification. And, that's the full, long document with
16 all of the attachments?

17 MS. BROWN: Yes.

18 CHAIRMAN IGNATIUS: Okay.

19 MS. BROWN: Yes. Schedules, testimony,
20 *etcetera*.

21 (The document, as described, was
22 herewith marked as **Exhibit 1** for
23 identification.)

24 MS. BROWN: For Exhibit 2, at Tab 16, on

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 March 22nd, 2013, Rosebrook filed a compliance letter.

2 And, we'd like to have that Tab 16 marked as "Exhibit 2".

3 Again, this is a cover letter from Attorney Bisbee dated

4 March 22nd.

5 CHAIRMAN IGNATIUS: I'm sorry. I have

6 no such --

7 CMSR. SCOTT: I have two.

8 CHAIRMAN IGNATIUS: I have it from March

9 20th. I thought you said "March 16"?

10 MS. BROWN: Oh, I'm reading from the

11 docketbook. It was March 22nd. If it's dated

12 differently, I guess I'm going by the filed dates.

13 CHAIRMAN IGNATIUS: You're right. Okay.

14 I do have that. Thank you. I'm a little fuzzy today.

15 All right. And, so, you wanted all of that submission or

16 only a portion of it marked? Oh, the Tab 16, you're just

17 talking about how it's -- okay. I understand. I thought

18 you meant it was some tab within the document, but you

19 just mean where it's in the docketbook?

20 MS. BROWN: Yes. I'm just identifying

21 it from the Commission's docketbook, correct.

22 CHAIRMAN IGNATIUS: All right. We'll

23 mark that as "Exhibit 2".

24 (The document, as described, was

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 herewith marked as **Exhibit 2** for
2 identification.)

3 MS. BROWN: I was going to mark Tab 20,
4 which was a stipulation agreement, but we have a fresh one
5 hot off the press to present to you today.

6 (Atty. Brown distributing documents.)

7 CHAIRMAN IGNATIUS: And, everyone now
8 has copies of the current version?

9 MR. BISBEE: Yes.

10 CHAIRMAN IGNATIUS: All right. We'll
11 mark that for identification as "Exhibit 3".

12 CMSR. HARRINGTON: And, the date on this
13 would be today's date on the new Stipulation Agreement?

14 MS. BROWN: Correct. I was trying to
15 find the original to give to the Clerk, and I am looking
16 for it. Did I inadvertently give it to you?

17 (Short pause.)

18 MS. BROWN: Well, I will locate the
19 original signature page, but I have given the Clerk a
20 copy. So, we would like to have this marked for
21 identification as "Exhibit 3".

22 CHAIRMAN IGNATIUS: So marked.

23 (The document, as described, was
24 herewith marked as **Exhibit 3** for

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 identification.)

2 MS. BROWN: For Exhibit 4, we'd like to
3 mark the Final Audit Report, which is referenced in the
4 Stipulation. It is not something that has been previously
5 filed.

6 CHAIRMAN IGNATIUS: And, everyone has a
7 copy of that?

8 MS. BROWN: Does anyone need an extra
9 copy?

10 CHAIRMAN IGNATIUS: All right. So
11 marked.

12 (The document, as described, was
13 herewith marked as **Exhibit 4** for
14 identification.)

15 MS. BROWN: And, that completes the
16 exhibits thus far. Thank you.

17 CHAIRMAN IGNATIUS: Thank you. Would
18 you proceed with questioning.

19 **STEPHEN P. ST. CYR, SWORN**

20 **MARK A. NAYLOR, SWORN**

21 **ROBYN J. DESCOTEAU, SWORN**

22 **DIRECT EXAMINATION**

23 BY MS. BROWN:

24 Q. Mr. St. Cyr, if I could start with you and have you

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 describe your name and business for the record.

2 A. (St. Cyr) My name is Stephen P. St. Cyr. The address
3 is 17 Sky Oaks Drive, Biddeford, Maine.

4 Q. Can you please describe your business?

5 A. (St. Cyr) Accounting -- the company provides
6 accounting, tax, management, and regulatory services.

7 Q. Do you consider those services -- actually, let me back
8 up. Is this your company?

9 A. (St. Cyr) Yes, it is.

10 Q. And, are those services within your area of expertise?

11 A. (St. Cyr) Yes, it is.

12 Q. And, do you provide those services to Rosebrook?

13 A. (St. Cyr) Yes.

14 Q. Is the testimony that you're going to give today
15 expected to be within your area of expertise?

16 A. (St. Cyr) Yes.

17 Q. Can you please describe what you have done with respect
18 to this docket for Rosebrook?

19 A. (St. Cyr) I would have worked with the Company
20 personnel to prepare the initial filing. Again, I
21 would have worked with the Company to prepare the
22 supplemental filing. Worked with the Company people to
23 respond to data requests; participated in technical
24 sessions and settlement conference, and was involved in

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[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 reaching a stipulation agreement with the Staff of the
2 Public Utilities Commission.

3 Q. Are you familiar with the February filing on behalf of
4 Rosebrook that contains your testimony?

5 A. (St. Cyr) Yes, I am.

6 Q. Did you also prepare the November filing rate, rate
7 filing for the Company?

8 A. (St. Cyr) Yes. That was the original rate filing.

9 Q. And, can you please explain, is there any relevance to
10 this proceeding of the November filing?

11 A. (St. Cyr) There is relevance. The relevant sections in
12 the original file were carried forward into the
13 supplemental file in February.

14 Q. So, is it accurate for me to conclude that the February
15 filing is -- represents the Company's initial filing
16 for rates, and that we don't need to go back and
17 reference documents in the November filing?

18 A. (St. Cyr) That is correct.

19 Q. Okay. With respect to your testimony that's included
20 in the February filing, did you have any changes or
21 corrections that you need to make to that testimony?

22 A. (St. Cyr) No, I do not.

23 Q. At the time it was written, were the answers true and
24 accurate to the best of your knowledge?

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[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 A. (St. Cyr) Yes.

2 Q. Can you please briefly describe why Rosebrook filed the
3 rate case?

4 A. (St. Cyr) The Company filed the case because in --
5 beginning in 2010 the Company experienced a net loss.
6 In 2011, it did realize a net gain, but the gain was
7 largely attributable to the forgiveness of certain
8 management costs by an affiliated entity. Had it not
9 been for the forgiveness of those costs, the Company
10 would have experienced a net loss in 2011. The Company
11 was also undertaking a construction program in 2011 and
12 '12. So, it was a combination of wanting to get the
13 additions of the plant reflected in rate base and to
14 eliminate the net loss position that the Company was
15 in, as to why we filed the rate case in the first
16 place.

17 Q. There are no temporary rates in effect for this
18 proceeding, is that correct?

19 A. (St. Cyr) That is correct.

20 Q. And, so, there will be no reconciliation between
21 temporary and permanent, is that correct?

22 A. (St. Cyr) That is also correct.

23 Q. And, Ms. Descoteau, can I turn to you and have you
24 state your name and position for the record?

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[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 A. (Descoteau) My name is Robyn J. Descoteau. And, my
2 position is -- or, the Company address is 21 South
3 Fruit Street, Suite 10, Concord, New Hampshire. And,
4 my position is Utility Examiner.

5 Q. And, as a utility examiner, can you please describe
6 what you normally do?

7 A. (Descoteau) I examine, analyze, and evaluate rate
8 filings and finance filings.

9 Q. Do you consider this to be within your area of
10 expertise?

11 A. (Descoteau) Yes, I do.

12 Q. And, did you review the Company's filing?

13 A. (Descoteau) I did.

14 Q. And, is the testimony you will be providing today
15 within your area of expertise?

16 A. (Descoteau) Yes, it is.

17 Q. Can you please provide an overview of your involvement
18 with this document -- with this docket?

19 A. (Descoteau) I examined and analyzed the initial filing,
20 the Company responses to data requests, and the PUC
21 Staff's audit report, to evaluate the current rates
22 being charged and the future rates which the Company
23 should be charging.

24 Q. Mr. Naylor, I'd like to have you state your name and

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1 position for the record.

2 A. (Naylor) Yes. Mark Naylor. I'm the Director of the
3 Gas and Water Division here at the PUC.

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

5 A. (Naylor) Yes. I have an accounting background.

6 Q. And, can you please describe your involvement with this
7 docket?

8 A. (Naylor) Yes. I've been involved in reviewing the
9 Company's filing and the revised filing, and working
10 with Ms. Descoteau on preparation of discovery
11 materials and reviewing the Company's responses, and
12 participating in the production of the Stipulation
13 Agreement that's being presented today.

14 Q. And, is that review within your area of expertise?

15 A. (Naylor) Yes, it is.

16 Q. And, do you expect your testimony today to be within
17 your area of expertise?

18 A. (Naylor) Yes.

19 Q. I'm sorry. Did you already describe the documents
20 you've reviewed in this proceeding?

21 A. (Naylor) Well, generally. The original filing, the
22 additional materials the Company provided that was
23 marked as "Exhibit 1"; discovery materials; the
24 Commission Staff's Audit Report; the Company's Annual

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 Report. So, that would be a summary of the materials
2 reviewed.

3 Q. Thank you. Mr. St. Cyr, are you -- I think you said
4 you had participated in the Stipulation Agreement, but
5 that's the document that's been marked as "Exhibit 3",
6 is that correct?

7 A. (St. Cyr) That's correct.

8 Q. And, Mr. Naylor, did you participate in the creation of
9 Exhibit 3?

10 A. (Naylor) Yes, I did.

11 Q. And, Ms. Descoteau, did you participate in the creation
12 of Exhibit 3?

13 A. (Descoteau) Yes, I did.

14 Q. We've marked for identification as "Exhibit 4" the
15 Audit Report. And, I just want to confirm, Mr. Naylor,
16 that it's Exhibit 4 that you reviewed when you
17 mentioned the "Audit Report" for this proceeding?

18 A. (Naylor) That's correct.

19 Q. And, Ms. Descoteau, is that also correct for you?

20 A. (Descoteau) That is correct.

21 Q. And, Mr. St. Cyr, you've seen Exhibit 4, is that
22 correct?

23 A. (St. Cyr) Yes.

24 Q. Ms. Descoteau, did you prepare the schedules attached

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 to the Stipulation Agreement?

2 A. (Descoteau) Yes, I did.

3 Q. Are any of you aware of any corrections that need to be
4 made to Exhibit 3 at this point?

5 A. (St. Cyr) No.

6 A. (Naylor) No, it's perfect.

7 (Laughter.)

8 **BY THE WITNESS:**

9 A. (Descoteau) No.

10 BY MS. BROWN:

11 Q. Thank you for your hard work over the last hour and a
12 half to edit this. Mr. St. Cyr, I'd like to have you
13 go over the revenue requirement, if you could please.
14 And, that appears on Page 2 of Exhibit 3?

15 A. (St. Cyr) Yes. The annual revenue requirement that the
16 Company and the Staff have agreed to is \$253,441. It
17 represents an increase in permanent rates of \$47,386.

18 Q. Mr. St. Cyr, do you have the old stipulation agreement
19 that we filed on September 5th before you?

20 A. (St. Cyr) Yes.

21 Q. Okay. With the corrections that were made to this
22 document today, were there any changes to the revenue
23 requirement?

24 A. (St. Cyr) There were not.

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[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 Q. Okay. So, if the Commissioners had read the
2 September 5th, and they're looking at this paragraph
3 today in the new stipulation, there are no changes?

4 A. (St. Cyr) That's correct.

5 Q. Okay. And, for Paragraph 2, are you aware of any
6 changes to that paragraph between the old and the new?
7 That paragraph being the "Effective Date of New Rates".

8 A. (St. Cyr) There are no changes to that paragraph.

9 Q. Mr. St. Cyr, in Paragraph 1, Revenue Requirement, you
10 indicated this is a 23 percent overall rate increase.
11 Can you explain what that is measured from?

12 A. (St. Cyr) That's measured from the test year metered
13 water sales.

14 Q. Thank you. What was the test year?

15 A. (St. Cyr) It was 2011.

16 Q. Ms. Descoteau, I'd like to turn to you and have you
17 explain why Staff agreed to a rate increase for the
18 Company?

19 A. (Descoteau) Based on the research and analysis that I
20 had done, the Company's current water rates were not
21 sufficient to attain a fair rate of return. And, the
22 rates computed during the rate case are fair and
23 reasonable.

24 Q. Ms. Descoteau, I'd like to have you turn to Page 9 of

1 the Stipulation Agreement, which is Attachment A,
2 Schedule 1. And, can you please explain the components
3 of the revenue requirement?

4 A. (Descoteau) Yes.

5 Q. And, these were components that you have developed,
6 correct?

7 A. (Descoteau) Correct. The schedule takes figures from
8 schedules within the document, and most of them are
9 also referenced. It takes the rate base from
10 Schedule 2, and multiplies it by the rate of return on
11 Schedule 3, to come up with an operating income return
12 requirement. And, then, it subtracts the proforma
13 operating income from Schedule 4 to come up with the
14 revenue surplus before taxes, and divides it by the tax
15 factor, which is Schedule 5, I believe, I forgot to put
16 that on there. Yes, that's Schedule 5. To come up
17 with a revenue surplus also. And, then, you compare
18 that or you subtract out the proforma annual revenue,
19 and you have your revenue requirement for the test
20 year. And, then, we made an adjustment for the test
21 year unmetered water revenue. And, that was an
22 adjustment, because it was included, those unmetered
23 water sales were included, and we backed those out.

24 Q. Can I have you stop there? And, while we're on the

1 unmetered water sales, why did you need to back those
2 out?

3 A. (Descoteau) Because they were untariffed water sales,
4 so, we backed those out.

5 Q. Thank you.

6 A. (Descoteau) So, you have an adjusted revenue
7 requirement of the 253,441, less the test year annual
8 metered water revenue, which is their actual metered
9 water revenue for the test year, and you have the
10 proposed increase in water revenue that they are
11 needing of 47,386.

12 Q. Thank you. I had a question about the rate base here.
13 Was this rate base or the plant in this rate base
14 audited?

15 A. (Descoteau) Yes. It was audited.

16 Q. Were there any adjustments to the Company's proposed
17 rate base that you made?

18 A. (Descoteau) Yes. I made 15 adjustments.

19 Q. Can you provide a summary of those and point us to
20 which schedule?

21 A. (Descoteau) The rate base adjustments begin on Page --
22 or, they're all on Page 11, which is Attachment A,
23 Schedule 2A.

24 Q. Are there any that were significant that you want to

1 bring to the Commission's attention?

2 A. (Descoteau) If you look at Adjustment 1, you can see
3 that I made a proforma to adjust the balances back to
4 the five-quarter averages.

5 Q. What had they been proposed at?

6 A. (Descoteau) The Company proposed to bring them back to
7 year end. And, Puc Rule 1604.07(s) requires that the
8 Company has it at a five-quarter average. So, I
9 brought it back to the five-quarter average. And
10 that's consistent for quite a few of the entries.

11 Q. Thank you. Mr. St. Cyr, on the rate base adjustments,
12 did you agree with these adjustments?

13 A. (St. Cyr) I did. And, I would just reiterate that the
14 Company's initial proposal was for a year-end rate
15 base. And, what you see here is the reversal of the
16 Company's adjustments and the replacement of that
17 adjustment with a five-quarter average. I would say
18 the majority -- the major adjustments were all related
19 to the change from a year-end to a five-quarter, and
20 then there were a few minor adjustments to which the
21 Company also agreed to.

22 Q. Thank you. Mr. St. Cyr, are you familiar with the
23 Company's capital structure?

24 A. (St. Cyr) Yes, I am.

1 Q. And, I'd like to have you turn to Schedule 3. It's a
2 short schedule. But can you elaborate on the
3 components? I mean, what the long-term debt may be
4 comprised of?

5 A. (St. Cyr) Yes. The Company's capital structure is
6 comprised of equity and debt. It's heavily leaning
7 toward equity, approximately 93 percent. The
8 "9.6 percent" is what the Company and the Staff have
9 agreed to, and what we understand the Commission has
10 recently approved in at least a recent docket. The
11 cost component for the long-term debt, the "4.05", is
12 the Company's actual cost associated with its only
13 loan, which is a State Revolving Fund loan.

14 Q. Thank you for that explanation. Ms. Descoteau, I'd
15 like to turn to the income adjustments that you made.
16 And, I believe those are on 4A. And, can you please
17 identify any significant adjustments to income that you
18 want to bring to the Commissioners' attention?

19 A. (Descoteau) I'd like to bring Adjustment 16 to your
20 attention. During discovery, it was found that a
21 calculation error in supporting schedules found, which
22 resulted in additional revenue related to Resort Waste
23 and BW Resort totaling \$7,451 in additional revenue for
24 the Company.

1 Q. Ms. Descoteau, are you aware that Rosebrook had
2 affiliate agreements in place prior to this year?

3 A. (Descoteau) Yes. Yes, I was.

4 Q. And, did you need to make any adjustments to these
5 schedules on account of the affiliate agreement?

6 A. (Descoteau) Yes. That was the Adjustment 16.

7 Q. Okay. Can I have you turn to Page 19, which is
8 Attachment A, Schedule 6? And, I'd like to have you
9 explain the calculation of the fixed charges. And, in
10 particular, Pages 20 and 21 of the Stipulation
11 Agreement have some charts. And, if you could explain
12 how you used those charges in this Schedule 6 please.

13 A. (Descoteau) I will. Schedule 6, and also Attachment B,
14 Schedule 4, show the calculation of the consumption
15 rate and the fixed rates using equivalent meter cost
16 ratios. The equivalent meter cost ratios were found
17 using the AWWA M1 Manual. And, a copy of that manual
18 page that I used is found in Attachment A, Schedule 7.
19 And, basically, this schedule, walking through it from
20 the top to the bottom, we took -- I took the total
21 metered revenue for the test year, and I backed out the
22 fixed revenue, which was computed through the fixed
23 charges, that were known and measurable from the
24 metered, the metered numbers. And, then, it gave us

1 the consumption revenue, and it gave us a percentage of
2 how much was based for fixed and how much was based on
3 consumption. And, based on that, I applied, in the
4 next section, it shows how the -- how the equivalent
5 meter ratios affect the distribution of the costs by
6 meter size. And, it's all based on the maximum flow.
7 And, those ratios are -- you get those ratios from the
8 Attachment 7 -- Attachment A, Schedule 7. And, that's
9 from the AWWA Manual. And, based on those ratios, you
10 can -- it's all based on an algebraic formula to get
11 your proposed ratio rates for your consumption.

12 Q. Mr. St. Cyr, I have a couple questions about this
13 schedule for you, pertaining to the customer
14 distribution among meters. Is it correct that this
15 differed, this Page 19 in the Revised Stipulation
16 differs from what was originally filed on
17 September 5th?

18 A. (St. Cyr) Yes. That's correct.

19 Q. Can you walk through what the changes were? Well, I
20 can start -- jump-start this. Did the customer, the
21 meter number for 5-inch -- 5/8th inch meters, did that
22 total change?

23 A. (St. Cyr) Yes, it did. It was increased by eight.

24 Q. And, what about the 1-inch meter customer count?

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 A. (St. Cyr) The 1-inch was reduced by three.

2 Q. And, the 2-inch meter?

3 A. (St. Cyr) Was reduced by five.

4 Q. And, what about the 3-inch meter?

5 A. (St. Cyr) There was no change on the 3-inch meter.

6 Q. Okay. You've got a "6-inch meter" here. Was that in
7 the old stip?

8 A. (St. Cyr) Originally, it was listed as an "8-inch
9 meter".

10 Q. So, we no longer have an 8-inch meter, but we have a
11 6-inch meter, is that correct?

12 A. (St. Cyr) That's correct.

13 Q. So, the overall "404" customer count did not change,
14 correct?

15 A. (St. Cyr) That is also correct.

16 Q. And, the -- you used the maximum flow gallon per minute
17 factors that Ms. Descoteau described largely stayed the
18 same, with the exception of the 6-inch, is that
19 correct?

20 A. (St. Cyr) That's correct.

21 Q. And, is it also correct that the proposed ratio rates
22 changed from the old stip to the new stipulation?

23 A. (St. Cyr) That's correct.

24 Q. And, the revenues are now reported as "\$71,953.48",

1 correct?

2 A. (St. Cyr) Yes.

3 Q. And, according to the old stipulation, which I believe
4 you have before you, that number used to be
5 "73,625.93"?

6 A. (St. Cyr) That's correct.

7 Q. So, this revenue number went down?

8 A. (St. Cyr) Yes.

9 Q. And, this pertains to the fixed charges?

10 A. (St. Cyr) Yes.

11 Q. Okay. Mr. Naylor, if I could pick on you, on this
12 schedule, if you don't mind. Were there other changes
13 to Schedule 6, in particular, calculation of
14 consumption rate?

15 A. (Naylor) Yes. As a result of the change in the number
16 of meters by class, by meter size, in service, as you
17 just described or Mr. St. Cyr just described, there's a
18 slight decline in the proposed amount of revenue to be
19 recovered through the fixed rates. So, therefore, the
20 proposal here is a slightly higher consumption rate to
21 make up for that. Again, as we stated at the
22 beginning, the revenue requirement that's being
23 proposed for this case is the exact same as it was in
24 the September 5th Stipulation. That's important to

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1 keep in mind. It's just that, with the different mix
2 of meter sizes in service, the individual rates within
3 each meter class has to change somewhat. And,
4 therefore, the consumption rate changes slightly as
5 well.

6 Q. Mr. Naylor, do you have a concern about the total
7 number of meters or a question about what the accuracy
8 of the total number of meters?

9 A. (Naylor) Well, we do. And, it's -- I think the Company
10 is going to double check that for us, and we wanted to
11 put that on the record this morning. The Company has
12 been consistent in our discussions leading up to today
13 with respect to the number of customers they have and
14 number of meters in service, that "404" number that's
15 shown on this Schedule 6. There is a data response
16 that the Company gave us, which included a study done
17 for them, which has a slightly different number of
18 customers. The customer count is slightly higher.
19 And, so, that came to our attention. We wanted to have
20 the Company double check that to make sure. Because,
21 obviously, if there's a greater number of meters in
22 service, then the individual rates should be slightly
23 less. And, so, it's important to check on that. So,
24 the Company has indicated that they will do that.

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1 Q. Mr. St. Cyr, if you could elaborate?

2 A. (St. Cyr) Well, I was just going to point out that that
3 particular study was not done for the Company. And, I
4 guess, offhand I don't -- it was done by Horizon. My
5 understanding, it was for the Town or for a developer
6 to determine whether or not there was an adequate
7 capacity in the system in order to accommodate a new
8 development. And, to the best of our knowledge, we
9 aren't aware that we had input into the study that
10 produced the numbers that resulted in what's there.
11 But we did, in fact, submit the study. The data
12 request asked if there were any studies that had been
13 done since a certain point in time. This study was
14 done. So, we submitted it. And, at the time, didn't
15 realize the difference in the number of customers.

16 Q. Has the Company and Staff had discussions on the
17 Company providing follow-up documentation that the
18 distribution of customers within this 404 and the
19 meters, that the Company would provide a follow-up
20 confirming that the numbers we're using in the
21 Stipulation are accurate?

22 A. (St. Cyr) Yes, we have. And, we intend to do that.

23 MS. BROWN: I'd like to make a record
24 request for this, so we have a placeholder for it, and

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1 mark it for identification as "Exhibit 5". And, it would
2 be a description of the -- yes, a description of the
3 number of meters within the meter classes that are listed
4 on this Attachment A, Schedule 6, and confirmation that
5 the number of meters and the number of customers served
6 are accurate and use the same number. That we don't have
7 customers out there that don't have a meter.

8 CHAIRMAN IGNATIUS: Any objection?

9 WITNESS ST. CYR: No.

10 CHAIRMAN IGNATIUS: We'll reserve that
11 then as "Exhibit 5".

12 **(Exhibit 5 reserved)**

13 MS. BROWN: Thank you. Because this was
14 a fluid morning, and we're talking about the number of
15 customers and meters, I just wanted to turn to any counsel
16 who is serving today if you had any other comments while
17 we're in the middle of this issue?

18 MR. BISBEE: Other than your use of the
19 term "fluid", no.

20 MS. BROWN: All right.

21 BY MS. BROWN:

22 Q. I'd like to move on to the step adjustment issue, Mr.
23 St. Cyr, if we could. Can you please explain what
24 plant is within this step adjustment that's proposed?

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1 A. (St. Cyr) The plant is specifically identified on
2 Attachment B, Schedule 2. And, it consists of the
3 replacement of a tank roof, the purchase and
4 installation of a diesel generator, the replacement of
5 a submersible pump for Well Number 1, and the
6 replacement of one hydrant.

7 Q. Ms. Descoteau, did the accuracy of the costs come up as
8 an issue in the Audit Report?

9 A. (Descoteau) Yes, it did.

10 Q. And, how has that been resolved?

11 A. (Descoteau) The Company has submitted backup for that.

12 Q. With respect to the numbers for the plant additions
13 contained on Attachment B, Schedule 2, for the step,
14 how confident are you that these numbers are accurate?

15 A. (Descoteau) I'm confident that they are accurate. They
16 have been looked at. They have been reviewed.

17 Q. Did you review those?

18 A. (Descoteau) Yes, I did.

19 Q. Okay. And, were those costs estimate -- or, these
20 costs documentation, did that come from Mr. St. Cyr?

21 A. (Descoteau) The documentation came from Mr. St. Cyr,
22 invoice copies.

23 A. (St. Cyr) By way of the Company though.

24 A. (Descoteau) Right. Correct.

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1 Q. Mr. Naylor, I'd like to draw your attention to the
2 "Step Increase" paragraph of the Stipulation, it's on
3 Page 3, and the last paragraph. That last paragraph
4 reads: "The plant additions included in the proposed
5 step will be subject to audit by Audit Staff. If
6 changes to the calculation of the step increase result
7 from that audit review, the Settling Parties will
8 advise the Commission accordingly." Is it safe to say
9 that that element of the audit has already occurred?

10 A. (Naylor) Yes, it has.

11 Q. So, there will be no further follow-up from the Staff
12 on this issue?

13 A. (Naylor) There will be none. All of the plant
14 additions proposed for inclusion in the step increase
15 have been reviewed.

16 CHAIRMAN IGNATIUS: Can I just ask one
17 clarifying question before you go on? Are they contained
18 in the Audit Report that's just been marked as "Exhibit
19 4"? The reason I ask is that was dated "May 14th", which
20 goes back well before the filing of the stip, the original
21 Stipulation Agreement.

22 WITNESS DESCOTEAU: I can answer that
23 one, Amy. Sorry. That one, the audit report was issued,
24 and it had not been resolved at that point. But, since

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1 then, and since, actually, even since the Stipulation
2 Agreement had been written, I went to Audit, and Audit had
3 all the paperwork, but had not had a chance to review it
4 since it had been submitted, because they're very busy at
5 this point. And, so, since I was previously on the Audit
6 Staff, we decided it would be just as efficient for me to
7 audit it at this point to speed along the rate case.

8 CHAIRMAN IGNATIUS: So, it's been
9 audited, it just doesn't appear in the Audit Report
10 itself?

11 WITNESS DESCOTEAU: Correct.

12 CHAIRMAN IGNATIUS: All right. Thank
13 you.

14 WITNESS DESCOTEAU: It's been done in
15 the last week.

16 BY MS. BROWN:

17 Q. So, Ms. Descoteau, you have a copy of the audit in
18 front of you, correct?

19 A. (Descoteau) I have a copy of the Audit Report.

20 Q. And, I'd like to have you turn to Page 53 of the audit,
21 which is Audit Issue 10.

22 A. (Descoteau) Yes.

23 Q. And, the costs that are associated with the water tank
24 roof, diesel generator, submersible pump, those are the

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1 costs that you have confirmed are accurately reflected
2 in the Stipulation, is that correct?

3 A. (Descoteau) The costs that have been reflected in the
4 Stipulation are slightly higher than the ones listed in
5 the issue of the "233,114".

6 Q. So, is it accurate that Audit Issue 10, with a total of
7 233,000, that is an old number?

8 A. (Descoteau) That is an old number.

9 Q. And, you have corrected that number in the Stipulation?

10 A. (Descoteau) The Stipulation is correct.

11 Q. Thank you.

12 CHAIRMAN IGNATIUS: Can you help me know
13 where that is? It's not in the step increase number, is
14 it?

15 WITNESS DESCOTEAU: The step -- the 2012
16 plant additions in the step increase is what I've audited
17 to be correct.

18 CHAIRMAN IGNATIUS: All right. So, the
19 step increase describes an increase of \$17,324?

20 MS. BROWN: No. That's the revenue
21 requirement increase due to the addition of the plant.

22 CHAIRMAN IGNATIUS: Oh. So, it's the
23 lower, the 270,000 is what you're talking about? The new
24 revenue requirement --

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1 MS. BROWN: Correct.

2 CHAIRMAN IGNATIUS: -- later in that
3 paragraph?

4 WITNESS DESCOTEAU: Correct.

5 CHAIRMAN IGNATIUS: All right. Thank
6 you. So, instead of 233, it's 270?

7 WITNESS DESCOTEAU: Correct.

8 BY MS. BROWN:

9 Q. Mr. Naylor, can you please explain why these plant
10 additions were treated as a step, rather than
11 incorporated into the regular revenue requirement?

12 A. (Naylor) Well, they're post test year plant additions.
13 So, recall that this rate case was filed based on a
14 2011 test year; these are 2012 plant additions. We
15 also would note significantly that Attachment B to the
16 Stipulation, which begins on Page 22, is the
17 calculation of this step adjustment. And, notably, a
18 significant portion of the plant additions that are the
19 subject of this step adjustment are considered
20 contributed.

21 CMSR. HARRINGTON: Excuse me.

22 Considered what?

23 **CONTINUED BY THE WITNESS:**

24 A. (Naylor) Contributed. The Company had a CIAC fund, or

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1 contributions in aid of construction fund, available
2 for use for capital improvements. And, you can see on
3 Attachment B, Schedule 1, that there's a pretty
4 significant reduction in the total value of the plant
5 additions for ratemaking purposes. So, while it's,
6 after netting out the contributions, it's a relatively
7 small amount of plant value to go into rates, it's
8 still overall, with the expenses that go with it,
9 8.41 percent, which is a fairly significant amount.
10 So, we felt that a step adjustment was appropriate.
11 That, if the Company's rates were based solely on the
12 2011 test year, they would have an earnings deficiency
13 immediately after the rate case was concluded. So,
14 that's a significant reason to agree to and recommend a
15 step adjustment in this case.

16 BY MS. BROWN:

17 Q. Mr. St. Cyr, I have a question regarding the effective
18 date of the new rates. Can you explain where the
19 Company is in issuing its bills?

20 A. (St. Cyr) The Company and the Staff have agreed to a
21 July 1, 2013 effective date. The Company is hoping to
22 incorporate these new rates in its next billing. It
23 would normally send out its next billing the first week
24 in October, towards the end of that week, and would

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1 hope to incorporate these new rates in that billing.

2 Q. Okay. I'm looking at the Stipulation, Page 2, the
3 bottom of the paragraph entitled "Effective Date for
4 New Rates". And, there's a clause in here that Staff
5 and the Parties -- or, the Settling Parties agree to
6 recommend that the Commission provide its approval for
7 the recovery of the difference between its current
8 tariffed rates and the new rates, in the amount and in
9 the manner approved. And, this is if the Company sends
10 out its bills. Can you please explain what's going on?
11 What the Company is looking for?

12 A. (St. Cyr) The Company would encourage the Commission to
13 issue its order in maybe three weeks, if that were
14 possible. It could probably wait maybe another few
15 days, maybe a week, before it gets to a point where it
16 needs the revenue from that particular billing. So, if
17 it gets to a point where the Commission doesn't issue
18 its order till four or six weeks after today, then it's
19 likely that the Company would have to go ahead and
20 issue the billings with the present rates. And, then,
21 this provision in this section addresses, if we do
22 issue the bills, then there would be a quarter
23 difference that the Company would need to collect going
24 forward.

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1 Q. And, would the Company be, if it is in that situation
2 where it is looking for a recoupment, will it be filing
3 a letter noting that fact to the Commission?

4 A. (St. Cyr) Yes, it would.

5 Q. And, Mr. Naylor, once Staff gets that filing, what will
6 Staff do in response?

7 A. (Naylor) Well, by virtue of our agreement that the
8 Company's new rates should take effect for service on
9 and after July 1st of 2013, we would simply make sure
10 that the Company's calculations are correct. That, if
11 it does bill the third quarter at its existing rates,
12 that it simply implements the new rates appropriately
13 going forward. Significantly, we agreed to this
14 provision and recommend it to the Commission because
15 the Company did not have temporary rates in this case.
16 So, it has had a rate case pending for quite some time,
17 it does not have temporary rates. So, we agreed that
18 it would be appropriate to recommend the rates be
19 effective for the third quarter of 2013.

20 Q. Thank you. Mr. Naylor, aside from the issue of
21 accuracy of the customer count/meter count, do you have
22 a recommendation on the just and reasonableness of the
23 proposed revenue requirement and customer rates in the
24 Stipulation?

- 1 A. (Naylor) Yes. We believe that the revenue requirement
2 and the rates that we're recommending through this
3 agreement be approved. We believe they're just and
4 reasonable. I would also want to take this opportunity
5 to just point out, because I don't think we did it
6 earlier, that with -- there's a schedule that combines
7 the effect of the permanent increase based on the test
8 year and the increase based on the step adjustment.
9 And, that's Page 25 of the Stipulation, also captioned
10 as "Attachment B Schedule 4". And, I just want to make
11 it clear that the rates that we're asking the
12 Commission to approve are calculated on this schedule.
13 They are described in the text, but I also wanted to
14 point out that this schedule combines the two amounts,
15 the test year revenues and the step adjustment
16 revenues. And, so, in the middle box, the next to the
17 last column where it says "Annual Fixed Charge", those
18 are the annual fixed charges we're asking the
19 Commission to approve for those meter sizes. And,
20 then, the calculation at the bottom, that is the
21 consumption charge of \$5.33 per 1,000 gallons that
22 we're asking the Commission to approve.
- 23 Q. Mr. Naylor, I walked Mr. St. Cyr earlier today through
24 the first couple paragraphs of the Stipulation asking

1 if there were any edits that occurred from the old
2 version to the new version. I think I should pick up
3 with you, with respect to Page 3, the step increase,
4 did those numbers change from --

5 A. (Naylor) No. No, they did not.

6 Q. And, what about Paragraph 4, "Customer Rate Impact/Rate
7 Design"?

8 A. (Naylor) Yes. There are significant changes here, as
9 we indicated at the beginning of the hearing. And, we
10 have incorporated the rates from the schedules at the
11 back of the document into the text here, so it's clear
12 what's being requested, what the changes are.
13 Significantly, I think, because the vast majority of
14 the Company's customers take service through a 5/8ths
15 inch meter, the 5/8ths inch meter charge, on an annual
16 basis, is going from \$140 to \$118.88. But, with the
17 increase in the consumption rate, there's a very slight
18 increase for that class. But this, this section, was
19 the subject of substantial edit. And, we're confident
20 that the numbers that are presented here are in
21 alignment with the schedules, Schedules -- Attachments
22 A and B.

23 Q. Mr. Naylor, there are no other changes between the old
24 Stipulation and the new Stipulation for Paragraphs 5,

1 "Rate Case Expenses", correct?

2 A. (Naylor) No other changes.

3 Q. And, how about the paragraphs subsequent to that in the
4 Stipulation?

5 A. (Naylor) No changes in those.

6 Q. Thank you. When you gave the opinion on the just and
7 reasonableness of the revenue requirement and rates,
8 did that represent Staff's position?

9 A. (Naylor) Yes.

10 Q. Okay. Mr. St. Cyr, what is the Company's position with
11 respect to the just and reasonableness of the revenue
12 requirement and rates?

13 A. (St. Cyr) The Company believes that the Stipulation
14 Agreement and the level of revenue requirement and
15 rates are, in fact, just and reasonable.

16 Q. Okay. Mr. St. Cyr, with respect to rate case expenses,
17 does the Company have a tally of its expenses?

18 A. (St. Cyr) We do not.

19 Q. There is a deadline of 15 days within which to file its
20 expenses. Does the Company expect to meet that?

21 A. (St. Cyr) Yes, it does.

22 Q. Okay. And, Staff, Mr. Naylor, can you please describe
23 what Staff will do once it receives the request for
24 rate case expenses?

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1 A. (Naylor) As we typically do, the rate case expense
2 request will be reviewed. The documentation will be
3 reviewed, to make sure that the costs sought for
4 recovery are only for the rate case. In addition,
5 Paragraph 5, on Page 5 of this document, and it
6 indicates that there are a number of categories of
7 expenses which are not eligible for rate case expense
8 recovery, and those are laid out here in Paragraph 5.

9 Q. Okay. Mr. Naylor, you had indicated that you had,
10 earlier in your testimony, you had reviewed Exhibit 4,
11 which is the Final Audit Report. And, my question to
12 you is, of the issues that were raised in this Audit
13 Report, how have they been addressed?

14 A. (Naylor) How have they been addressed?

15 Q. Yes. What is the plan for addressing these that have
16 not already been addressed?

17 A. (Naylor) The vast majority of the issues have been
18 addressed. Since the time of the Audit Report, Staff
19 and the Company have been in discussions about a number
20 of the issues that were raised, and the Company has
21 been addressing them. There are, I believe, just two
22 items remaining to be resolved. And, those are
23 detailed beginning on Paragraph B, on Page 5. And,
24 those are the Continuing Property Records, and then, on

1 Page 6, the meter by-pass and unmetered sales. Those
2 are the remaining items.

3 Q. Can you please describe what compliance is called for
4 in the CPR paragraph?

5 A. (Naylor) The Company has not maintained Continuing
6 Property Records, as indicated in the paragraph here.
7 And, so, the Company has engaged the services of a
8 consultant to assist it with the construction of
9 appropriate CPRs. The consultant is using whatever
10 records it has available, which generally include the
11 Company's general ledger and its depreciation records,
12 to create Continuing Property Records. They have
13 provided us with an update recently. And, according to
14 the terms here, the plan is that the Company is going
15 to submit a report to us, I believe by the end of this
16 month. Yes, by the end of September. And, we will
17 discuss that with the Company and review the work
18 that's been done. And, it's our intention that the
19 Companies will have -- the Company will have Continuing
20 Property Records in place by the end of October.

21 Q. Mr. Naylor, again, why are CPRs significant?

22 A. (Naylor) Well, they're very significant because they
23 constitute the permanent records of the Company's
24 long-lived assets. And, customers are paying rates

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1 that include a return on those assets. So, no matter
2 how old the assets are, and, of course, with utility
3 assets, they can last many, many years, in fact,
4 decades, they remain the ongoing evidence of the
5 Company's plant in service. They provide the original
6 cost information for the plant. And, they're certainly
7 important for proper treatment of depreciation, as well
8 as providing the Company with the information it needs
9 to properly retire assets from an accounting basis. If
10 you don't have Continuing Property Records, you have no
11 idea what value to remove from the books when something
12 is retired. And, this directly impacts customer rates.
13 So, having Continuing Property Records is not just, you
14 know, a simple compliance matter. It's important for
15 proper customer rates.

16 Q. Do you have a copy of the Audit Report in front of you?

17 A. (Naylor) I do.

18 Q. I just want to have you touch upon how this provision
19 of the Stipulation addresses the Audit Issue 6 and 8.
20 And, those appear on Page 49 and 51.

21 A. (Naylor) Yes. With respect to Audit Issue 6, I know
22 that the Company has provided us with the documentation
23 we were looking for. I don't have any details off the
24 top of my head. But we have been able to clear this

1 up. So, I think, as we've indicated, there's like two
2 remaining items from the audit. Continuing Property
3 Records, on Page 51 of the audit, directly gives rise
4 to the provision in the Stipulation that I just
5 described, and that the Company is working to reach
6 compliance.

7 Q. Mr. Naylor, with respect to Audit Issue 8, do you know
8 when the last time the Company was audited?

9 A. (Naylor) Audit Issue 8. Yes, I believe that, the
10 reference in the audit issue, the second paragraph
11 indicates in Docket "DW 06-149". I believe that was a
12 rate proceeding, but I'm not certain of that. But,
13 clearly, it was an issue at that time. So, this is, as
14 indicated at the top of the page as well, it's a repeat
15 audit issue. So, I think I have confidence, I would
16 say, that the Company is on the way to complying with
17 this at this time.

18 Q. Now, Mr. Naylor, you are aware, were you, of the March
19 20th filing from the Company explaining management
20 changes it has made to improve its compliance?

21 A. (Naylor) Yes.

22 Q. And, do you think that's a step in the right direction?

23 A. (Naylor) Yes, I do. I don't happen to have a copy of
24 that right in front of me, but I know exactly what

1 you're referring to. And, it was helpful.

2 Q. Okay.

3 A. (Naylor) Yes.

4 Q. Moving onto the "meter by-pass and unmetered sales",
5 can you please explain why this is significant to
6 Staff?

7 A. (Naylor) Well, it's a significant issue that we needed
8 to resolve, because the Company did charge for some of
9 the water that was being used, but there's no rate for
10 that service. And, utilities cannot charge rates that
11 the Commission has not authorized. And, so, that was a
12 little bit of a problem. And, so, we have reached
13 agreement here. And, I think this paragraph, on Page 6
14 of the Stipulation, is fairly detailed, and indicates
15 that Staff and the Company have agreed that Rosebrook
16 is going to eliminate these practices. They're going
17 to remove so-called "by-passes" that exist in the
18 system. It will not sell water except under a tariffed
19 rate approved by the Commission. And, it has
20 compliance deadlines here as well in this paragraph.
21 So, -- and, it's a significant issue. Because
22 customers paying tariffed rates are supporting the cost
23 of the water that's being sold at either an unknown
24 rate or simply given away. So, I think we're satisfied

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1 with the language that we have here for compliance, and
2 we look forward to this issue being resolved.

3 Q. And, Mr. St. Cyr, do you have any comments to
4 Compliance Issue, Paragraph 1, regarding CPRs, and
5 Compliance Issue Number 2, regarding the meter by-pass?
6 I don't want to get, you know, one-sided testimony of
7 Staff, if you had something to also add.

8 A. (St. Cyr) I don't really have anything else to add.
9 The Company acknowledges its role in these particular
10 compliance issues and is working to resolve them.

11 Q. Thank you. And, Mr. Naylor, the Stipulation provides a
12 paragraph regarding "Other Compliance Issues", that
13 appears on Page 7. It lists categories of changes.
14 Are there anything of this list that you deem is
15 significant to bring to the Commissioners' attention?

16 A. (Naylor) Are you referring to Paragraph 3 on Page 7?

17 Q. Yes. "Other Compliance Issues from Audit Report".

18 A. (Naylor) No. I think we just simply put this paragraph
19 here to -- because we were submitting the Audit Report
20 as an exhibit for the Commission's review. We wanted
21 to acknowledge that the Company has taken a number of
22 steps, in terms of its accounting and bookkeeping, its
23 financial reporting, and operational areas, to improve
24 and address the issues raised in the audit. And, so,

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1 that's the reason for that paragraph.

2 Q. Now, the next paragraph has a proposed tariff change
3 regarding cross connections. And, is it the intent of
4 the Parties just to substitute Attachment D to the
5 Stipulation for the current cross connection paragraph
6 in the tariff?

7 A. (Naylor) Yes.

8 A. (St. Cyr) Yes.

9 Q. Thank you, Mr. St. Cyr.

10 MS. BROWN: Staff has no other
11 questions. But I'm looking across the aisle to see if
12 there are any other questions?

13 CHAIRMAN IGNATIUS: Mr. Bisbee? Ms.
14 Holahan?

15 MS. HOLAHAN: No thank you.

16 CHAIRMAN IGNATIUS: All right. Thank
17 you. And, there are some questions I think from the
18 Commissioners. Commissioner Harrington.

19 CMSR. HARRINGTON: Yes, I have a number
20 of questions. I'm trying to get a few things straight
21 with this.

22 BY CMSR. HARRINGTON:

23 Q. Let's just start with the Audit Report, if we could.
24 Exhibit 4. A number, and whoever is the most

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1 appropriate can answer these, but there was a number of
2 things that were addressed in the previous discussion,
3 and a lot them were -- talked about there's other ones
4 in here where the Company simply agrees with the
5 audit's finding and agreed to fix it. But there's a
6 few of them that I just -- I don't quite understand
7 what the status is. So, I'm going to start with, on
8 Page 56, which is Audit Issue 13, and it's about
9 overtime associated with affiliates. And, just to try
10 to get this as compact as possible, what it says in the
11 bottom is "The Company disagrees. The Company does not
12 view 20 percent to be excessive." And, then, the audit
13 reports back, they don't -- it's kind of -- I'm not
14 sure what the status of this item is. Is it -- can
15 someone comment on what's going to happen here?

16 A. (St. Cyr) In the context of the rate proceeding, and as
17 incorporated as an adjustment to test year expenses,
18 the Company agreed to a 10 percent, rather than the
19 20 percent mark-up.

20 Q. So, that was mutually agreed on and using 10 percent?

21 A. (St. Cyr) That's correct.

22 Q. Okay. All right. I'm just going on to the next page.
23 On 14, it's talking about "depreciation" and "salvage"
24 from meters, and a few other things. Where, again, the

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1 Company disagreed with the recommendations. Audit
2 responds back. And, again, could someone comment as to
3 -- I'm not quite sure what the final result of this is?

4 A. (St. Cyr) The final result, with respect to the
5 telemetry system, was a 10 year life.

6 Q. And, that was --

7 A. (St. Cyr) That was agreed upon between the Company and
8 Staff.

9 Q. Okay. So, they both agreed on 10 years?

10 A. (St. Cyr) That is correct.

11 Q. And, what about the salvage issue?

12 A. (St. Cyr) I don't know as there was a specific
13 agreement with respect to the salvage. The Company is
14 no longer, if it ever had, received any salvage for old
15 meters, and, as a result, is not incorporating a
16 component for anticipated salvage recovery.

17 Q. Okay. And, just moving right along. On 15, this is
18 the one having to do with the "Mount Washington Hotel
19 Contribution". And, again, if I -- when I get to the
20 end, I'm not quite sure, and I've only had a few
21 minutes to look at this, but I'm not quite sure what
22 the status is. What's the result of this issue?

23 A. (St. Cyr) The result was, in 2012, the Company made an
24 adjustment to its books to treat the \$105,000 payment

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1 from the Hotel as contribution in aid of construction.
2 There was a disagreement at the time in which we
3 responded to the audit. But, again, in the context of
4 the rate proceeding, we agreed that it should, in fact,
5 be treated as contribution in aid of construction, and
6 made that adjustment in 2012.

7 Q. Okay. So, both Staff and the Company agreed it should
8 be on the CIAC?

9 A. (St. Cyr) That's correct.

10 Q. Okay. Skip a couple here. Going to Page 63, Audit
11 Issue 18. And, I guess this goes back to that same
12 one, so that that agreement would apply here as well,
13 references back to the 15?

14 A. (Descoteau) Yes.

15 A. (St. Cyr) Yes. There's probably six or eight specific
16 issues related to contribution in aid of construction.
17 And, the Company did a comprehensive review of the
18 funds that it had received and how those funds were
19 applied, and then submitted that schedule to the Staff
20 for their review. We're now in agreement with what the
21 construction in aid of construction was and how it was
22 applied. And, it was incorporated into this
23 Stipulation Agreement and the supporting schedules.

24 Q. Okay. On Page 64, Item 19, on the purchase of a truck.

1 Again, the Company's response is "Regrettably, the
2 Company has not yet reflected this transaction on
3 F-46.4." And, then, the audit says, basically, that
4 "the Company requested an extension" and "the Company
5 has sufficient time to correct this deficiency prior to
6 submitting its 2012 annual report." Has that been
7 done?

8 A. (St. Cyr) That's been done. It was in -- again, the
9 adjustment was made in 2012. It was reflected on that
10 schedule in the PUC annual report, and is reflected in
11 these schedules for ratemaking purposes.

12 Q. All right. Moving onto the Stipulation Agreement. One
13 of the things I'm trying to get straight is what the
14 actual cost is on this. It says, on the bottom of
15 Page 3, it says "Fixed charges" -- I'm sorry, that's
16 not where I wanted to go, the wrong page. On the top
17 of Page 5, and it continues over from the bottom of
18 Page 4, where it talks about the annual usage of
19 customers with 5/8ths inch meters, as a result "this
20 average customer will see an increase in costs from
21 209.94 to 212.75." And, I'm trying to reconcile that
22 with what's in the back of this thing in the -- get the
23 right page, this is on Page 26, Attachment C. There it
24 talks about the 5/8ths inch customers having a

1 0.43 percent increase, and here it comes out to be
2 1.3 percent.

3 A. (Naylor) Right.

4 Q. Okay. Can someone explain --

5 A. (Naylor) Yes.

6 Q. -- why they're getting -- why there's two different
7 numbers?

8 A. (Naylor) Well, this is just that this Company has a
9 relatively small number of year-round customers. Most
10 of the customers are part-time or seasonal. We didn't
11 -- just for purposes of illustrating for the text, we
12 wanted to use an average customer, you know, which this
13 is a very, very small consumption, actually, you know,
14 of an average customer, 48 gallons per day. That's
15 probably --

16 Q. That's for all 5/8ths inch customers cumulatively or --

17 A. (Naylor) That's just a straight average of all
18 customers, divided by all 5/8ths inch usage.

19 Q. Okay.

20 A. (Naylor) So, it's kind of a, you know, fictional
21 customer, if you will. It's strictly an average.

22 Q. Okay.

23 A. (Naylor) I suspect that the -- I suspect that the 0.43
24 is kind of skewed, because there are a number of

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1 year-round customers. I'm not sure, you know, exactly.

2 Q. Well, it's not a major difference, but there is a
3 difference there. I was just wondering if there was
4 something I was missing.

5 CHAIRMAN IGNATIUS: Well, before you
6 move on.

7 CMSR. HARRINGTON: Yes.

8 CHAIRMAN IGNATIUS: So, is it more
9 likely that those 5/8ths inch customers will see an
10 increase in the 1.3 percent range?

11 WITNESS NAYLOR: The more the customers
12 use, they will see a greater percent increase. That's
13 right. Yes.

14 CHAIRMAN IGNATIUS: Okay. But, of the
15 two different numbers that you've shown, although the 0.43
16 can be mathematically correct, it's more realistic to look
17 to the 1.3 percent increase?

18 WITNESS NAYLOR: Yes, I think that's
19 probably a good way to look at it.

20 BY CMSR. HARRINGTON:

21 Q. Mr. Naylor, let me just jump in. It sounds as if what
22 you're doing here is like the hypothetical average
23 customer, which actually doesn't exist, because there's
24 a mix of people who only come up for weekends or people

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1 that come up in the winter, in the summer, and then
2 there's a small amount that are there year-round, and
3 that just skews the average off completely?

4 A. (Naylor) That's true. One of the things that we should
5 have pointed out, I think, or at least with greater
6 emphasis, we're recommending here some significant rate
7 design changes as we went through with increasing the
8 rates with the larger meter sizes. And, that's, and I
9 point that out, if you look at Page 4, that whole --
10 the whole text there describes the changes to the fixed
11 charges for each of the metered classes. There's some
12 pretty significant change there.

13 But one of the things that we were
14 uncomfortable with changing was the -- in the absence,
15 I guess, of a cost of service study, was the ratio of
16 dollars the Company receives in its rates from fixed
17 charges and the ratio of dollars it receives through
18 its rates from the consumption rate. We could have
19 changed that. And, I think, by not -- you know, we
20 left it roughly, what, 70, 72 --

21 A. (St. Cyr) Seventy-two.

22 A. (Naylor) Yes, 72/28 percent. That was based on the
23 test year. Since we increased some of these fixed
24 charges pretty significantly, recommending that the

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1 fixed charge should be increased, we probably should
2 have played with that ratio a little bit more. But I
3 think we were uncomfortable doing that, because it
4 wasn't based on anything other than, you know, just
5 kind of a guess. We have no data to change that. So,
6 we left that percentage in place. I think that
7 increases the sensitivity to a customer's bill based on
8 how much they use. I think you're going to see a
9 significant, like for a year-round customer, they're
10 probably going to get a bigger increase, because
11 72 percent of the Company's revenues come from the
12 consumption charge. So, the way to soften that
13 increase for year-round customers would be to change
14 that ratio, maybe go to 60/40, but we didn't have any
15 basis to do that. And, so, --

16 CMSR. SCOTT: Could I interject before
17 we leave this topic?

18 CMSR. HARRINGTON: Go ahead.

19 CMSR. SCOTT: And, sorry to go out of
20 order here.

21 CMSR. HARRINGTON: No, no, no. Go
22 ahead.

23 CMSR. SCOTT: While we're on this topic,
24 obviously, we typically try to come up with an average

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1 customer to be able to illustrate to somebody reading
2 this, the potential ratepayer, that the order of magnitude
3 of what the rate change is. And, I'm wondering, in this
4 case, an open question to think about is, would it, in
5 this case, would it make more sense to have an average
6 seasonal customer and an average full-time customer,
7 perhaps that maybe may help somebody get a better handle
8 on it?

9 WITNESS NAYLOR: Sure. Yes. It would.
10 I know we did inquire of the Company, when we were
11 negotiating this document, how many year-round customers
12 they have and what the consumption patterns of those
13 customers were. So, I think we have, I'm looking at
14 Ms. Descoteau, --

15 WITNESS DESCOTEAU: Yes.

16 WITNESS NAYLOR: -- I think we have that
17 data. It's just, you know, making a decision about what
18 -- what's more illustrative and what's of more value, we
19 could put in, you know, for a year-round customer, and we
20 typically do this with the other companies, as you know,
21 when we have stipulations, we try to illustrate what the
22 impact of the rate change is going to be, we always -- or,
23 virtually always use a year-round customer, because most
24 of the systems we deal with, the Pennichucks and Aquarions

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1 and others have, you know, the vast majority of their
2 customers are year-round. In this case, it's not. It's
3 mostly part-time or seasonal. So, that's why we selected
4 an average customer to illustrate, but it doesn't really
5 probably have that much meaning.

6 WITNESS DESCOTEAU: It's hard for them
7 to find an average customer.

8 BY CMSR. HARRINGTON:

9 Q. Okay. Sort of segueing into just what you're referring
10 to, again, on Page 26, it shows the list there. And,
11 you just mentioned that you made some major changes to
12 the fixed costs. Why the big changes to the fixed
13 costs? I see, you know, the rate increase is shown for
14 5/8ths is point 0.43 percent; 1-inch is 98 percent; the
15 3-inch is 119 percent. Why are these percentages so
16 all over the place?

17 A. (Naylor) Right. Right. Well, I think we're confident
18 that the rates that we're recommending now are good
19 rates. We've shown you what they're based on. They're
20 based on an analysis of the capacity, the differences
21 between the 5/8ths and the larger meter sizes, based on
22 the AWWA standard. So, I think the new rates we have
23 are good. These proposed percentage changes I think
24 are more illustrative of how bad the existing rates

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1 were, you know.

2 Q. So, if I can jump in here then. So, going back to the
3 rates that are in effect now, there was -- you weren't
4 using these standardized conversions of the 1-inch
5 meter being set at 3.3 times the 5/8ths inch?

6 A. (Naylor) I have no idea where the existing rates --
7 where they came from.

8 Q. So, we can maybe look at these as being brought into
9 compliance with industry standards then?

10 A. (Descoteau) That's correct.

11 Q. Okay. All right. That helps quite a bit. Okay. And,
12 maybe this is probably more just to Mr. St. Cyr. I'm a
13 little confused by the fact that the Company seems to
14 know how many total customers they have, but they're
15 really mixed up on what size of lines they are and how
16 many of one and how many of the others. Can you
17 explain how -- how do you think you have an 8-inch line
18 and it turns into a 6-inch line?

19 A. (St. Cyr) That particular one is somewhat explainable.
20 There is actually an 8-inch pipe that runs from the
21 main to the Hotel, and there are 8-inch valves along
22 the way. But, as it gets to the Hotel, it actually
23 steps down to a 6-inch main and there's actually a
24 6-inch meter. This is something that the Company

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1 discovered recently, and actually physically went out
2 and verified it yesterday.

3 Q. So, they assumed that the 8-inch line just continued
4 into the Hotel, and, in fact, the metering valve on
5 there was eight inches, but it turned out to be six?

6 A. (St. Cyr) That is correct.

7 Q. Okay. All right. And, in Exhibit 1, which is your
8 testimony of February, and I realize some of this has
9 changed, but, when I look on the first page of that,
10 and I see the "386 customers", which has now been
11 changed to "356". And, I go across and I see a
12 proposed change percentage of "34.62 percent", which is
13 nowhere close to what was proposed or what came out in
14 the Settlement Agreement. Is that because those
15 standards that Mr. Naylor was just talking about, of
16 the conversions of 5/8ths, you know, to the 1-inch,
17 were not applied in your original testimony?

18 A. (St. Cyr) The standards were not implied. But I
19 believe the percentage that you're referencing is
20 actually an overall percentage and was not specific to
21 the classes. The Company, in that filing, I believe
22 proposed an overall increase, and then just simply
23 applied that overall increase to all existing
24 customers.

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1 Q. But -- so, everybody got the -- it says average
2 residential increase was "34.62", and that was the same
3 as to all others. So, you just took it and applied
4 the --

5 A. (St. Cyr) The overall percent increase to all of the
6 existing rates, and did not take into consideration the
7 rate design that the Company ultimately agreed with.

8 Q. Okay. So, now with that in place, or proposed in the
9 Settlement Agreement or the Stipulation Agreement, you
10 would agree that that's the proper way for making a
11 determination of the fixed costs associated with the
12 various classes of customer based on pipe size?

13 A. (St. Cyr) Yes. When the Company looked at the existing
14 rates, it recognized that it was in need of revision.
15 And, then, when it looked at what the industry
16 standards are, it agreed with the Staff that those
17 industry standards should, in fact, apply to us as
18 well.

19 Q. Okay. And, so, this confusion over numbers, I guess
20 the "404" you know because that's the amount of bills
21 you send out and get checks in from. Exactly what size
22 service each of them have, that's been -- that wasn't
23 so clear?

24 A. (St. Cyr) Yes.

1 Q. Okay. You had also stated originally that you were
2 looking at a year-end calculation for rate increases,
3 and then you subsequently agreed on the five quarters.
4 If the five quarters are what's in the PUC rules, why
5 didn't you originally file with the five quarters?

6 A. (St. Cyr) We originally filed for the year-end rate
7 base because we believe that that is more -- more
8 accurately reflects what the costs are. And, the rate
9 case is a process by which we're trying to establish
10 rates going forward. So, the Company proposed it a
11 year-end more accurately reflects what our costs are
12 and what should be reflected in rate base.

13 Q. But even though the PUC -- you were aware the PUC rules
14 stated that the five quarters was the standard
15 procedure here?

16 A. (St. Cyr) Yes. It states "13 average/five quarter".
17 And, I know the Commission has in the past used
18 beginning and year-end averages. And, it uses year-end
19 averages for certain additions that are post test year.

20 Q. Okay. But, in the future, you'll be filing five
21 quarters?

22 A. (St. Cyr) It's possible, yes.

23 Q. And, speaking of the future, does the Company have any
24 long-term plan looking ahead, as far as possibility of

1 any expansion in that area up there?

2 A. (St. Cyr) In some of the testimony that was filed
3 initially, there is some discussion about future
4 requirements that the Company has. And, those
5 requirements are sort of short-term plans that the
6 Company has. At this point, it's not aware of any
7 further development with the system as a whole.

8 Q. Okay. And, one final question, I guess. We talked
9 about "untariffed water sales". And, I know there's a
10 section on Page 6 of the Stipulation Agreement on this.
11 I'm just trying to figure this out. I mean, I can
12 understand how you can lose water through leakage, I
13 can understand how you can lose water because someone
14 connects up to your system and you're not aware of it.
15 But how do you sell water to someone and you're not
16 aware of it?

17 A. (St. Cyr) There really isn't a good answer to that.
18 You know, water was used, but it wasn't metered, and
19 then estimates were provided as to how much water was
20 used, and then billed out according to the estimates.

21 Q. So, --

22 A. (St. Cyr) But it's a practice that is part of the
23 discussion on meter by-passes that the Company is
24 talking about removing and eliminating.

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1 Q. So, in those cases, there was, upstream of the first
2 meter, there was a tap-off of the pipe, and people were
3 able to get water out of that, and it just didn't
4 register as going through the meter, so that's why no
5 one was billed for it directly?

6 A. (St. Cyr) I believe a by-pass actually sort of goes
7 around the meter, the meter there, and there's a pipe
8 that allows you to circumvent the meter, and then --

9 Q. And, why was that installed? Does anybody know?

10 A. (St. Cyr) It's not something that the Company
11 installed. It would have been installed by I believe
12 it was the ski area or the Hotel or some other party.

13 Q. And, are all these now -- have they all been
14 identified, so we won't be back here in a couple years
15 saying you're selling water to somebody else in unknown
16 quantities?

17 A. (St. Cyr) That's correct.

18 Q. Okay.

19 A. (Naylor) If I could also add, there's -- I don't
20 believe it's the case now, and if the Company folks
21 would correct me if I'm incorrect, but I believe, up
22 until recently, the Hotel, the water company, and
23 various other assets in the Bretton Woods area were all
24 under the same ownership. So, they were all related

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1 parties. The water system was just part of a much
2 larger entity, I guess you would say. So, I think
3 there was less care taken to separate the functions of
4 the water utility from other functions.

5 I would be interested if Company folks
6 here would have anything to add to that. I think it is
7 a significant issue, has been an issue in the pass.

8 MR. HAHAJ: I think that that statement
9 is indicative of the past ownership, up until, you know, a
10 point in time when the development property was foreclosed
11 upon. Yes, there was a commonality of ownership and
12 operation.

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

15 CHAIRMAN IGNATIUS: Thank you.
16 Commissioner Scott.

17 CMSR. SCOTT: Good -- I was going to say
18 "good morning". Good afternoon. Most of my questions
19 revolve around the compliance issues. I will say I --
20 noting that at least one, maybe two dockets have gone by
21 with the Company either being ordered or agreeing to be in
22 compliance and is still not happening doesn't fill me with
23 great confident, I guess. So, I am pleased to see the
24 March compliance filing. That shows progress. I'd be

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1 more pleased if there was no need for a compliance filing,
2 I suppose.

3 So, with that, and perhaps Attorney
4 Bisbee or the Company may be better to answer, I have
5 some questions on that. The filing itself talks about
6 having certain processes in place, for instance,
7 training new employees or existing employees, and doing
8 quarterly financial and operational reviews regarding
9 compliance. I just wanted to, I noticed in the
10 Stipulation Agreement there's been a filing apparently
11 to Staff, in August, it's not in our file here, the
12 Commissioners. I just wanted to get an update. Are
13 these things being done? I guess that's -- I'll leave
14 it at that.

15 MR. BISBEE: I'm happy to address that,
16 Commissioner Scott. You mentioned the Continuing Property
17 Records was your last question. What was submitted to the
18 Staff was a draft report of that in August. And, I think
19 that was the basis for the Staff's confidence that it was
20 going to be finished by the September 30 deadline that's
21 in the Agreement, with the expectation that the two
22 parties will fully agree on the completion of that by the
23 end of October.

24 The March compliance report that we did

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1 submit did address the overall issue of the Company
2 getting a better handle on its compliance needs overall.
3 Nancy Oleson, who is here today, was designated as the
4 person responsible for compliance. There really -- that
5 hadn't been clear, hadn't been clearly established.
6 That's in place. The processes that that two-page report
7 speak to have begun. And, the Company is fully committed
8 to finishing that off and continuing to maintain its
9 compliance in the manner that it should.

10 CMSR. SCOTT: Okay. And, to follow up.
11 So, the compliance checklist it discusses, and even the
12 employee training, are there -- I assume there are some
13 materials that are given to employees or a syllabus or
14 something that would --

15 MR. BISBEE: The process has begun.
16 It's not complete yet, Commissioner Scott. So, there
17 isn't a specific package yet that's been developed.

18 CMSR. SCOTT: Okay. And, when there is,
19 for let's say the checklist and the training materials,
20 will that be shared with Staff?

21 MR. BISBEE: It can be, certainly.

22 CMSR. SCOTT: I say that, and I'm sure
23 you have things well in hand, and I don't want Staff to be
24 doing that work, but it would be nice to have a straight

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1 face test that everything is good.

2 MR. BISBEE: And, let me add, too, if I
3 may. The Staff has been quite insistent. You correctly
4 point out that an issue or two have recurred over a couple
5 of different dockets. And, the Staff rightly took a
6 pretty insistent position this time around. It's the
7 reason why the compliance issues were wrapped into this
8 rate proceeding. And, it got the Company's attention in a
9 more effective way than it had before, no fault of the
10 Staff, I might add. And, due to the efforts of the two
11 Staff -- excuse me, the two Company representatives here
12 today, they have attended to business.

13 CMSR. SCOTT: Okay. And, I hope I know
14 the answer to this. So, based on that, and the work
15 you're doing, there's -- you'd agree there's no need for
16 the Commission to entertain modifying the Agreement to
17 have stipulated penalties, if deadlines aren't met, that
18 type of thing?

19 MR. BISBEE: That's certainly the
20 Company's position, and I believe that's the Staff's
21 position as well. And, the purpose of a penalty has been
22 more than accomplished by all the other efforts that the
23 Staff has required of the Company and the expense that's
24 attendant with that, I believe.

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1 CMSR. SCOTT: Okay. Thank you. That's
2 all I have.

3 CHAIRMAN IGNATIUS: Thank you.

4 BY CHAIRMAN IGNATIUS:

5 Q. Let me ask you just a couple more questions about the
6 non-tariffed sales issue. Once the changes are made to
7 the by-passes, will the same amount of water still be
8 supplied, it just will now be tariffed and accounted
9 for appropriately?

10 A. (St. Cyr) Yes.

11 Q. And, the revenue, does that change the revenue to the
12 Company?

13 A. (St. Cyr) No. Because the Company does, in fact, have
14 some revenue, on an estimated basis, reflected in its
15 test year.

16 Q. So, the water that was being supplied or I guess being
17 taken was being paid for at appropriate rates, in your
18 opinion, and they just weren't formally tariffed?

19 A. (St. Cyr) Yes.

20 Q. Mr. Naylor or Ms. Descoteau, do you have any further
21 knowledge on that subject, anything else to add, or
22 would you agree with Mr. St. Cyr?

23 A. (Naylor) I was under the impression that, really, we
24 were dealing with two different amounts here, two

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1 different issues. One was the fact that there were
2 unmetered sales, or, as Mr. St. Cyr referred to,
3 "estimated sales", and there were some monies paid to
4 the Company for that.

5 I was also under the impression that
6 there were, as we referenced it in the document,
7 "unauthorized" use of water. That was used -- it was
8 taken through these by-passes that are listed on Page
9 6, water that was not paid for at all. So, that's been
10 my working understanding of this.

11 Q. And, is it your understanding that, once these
12 by-passes are closed off, the water will still be
13 supplied, but through -- through meters? Or, just no
14 water supplied at all to these locations?

15 A. (Naylor) Well, that's a good question. I don't know.
16 I think it's -- I think it's clear from our discussions
17 that the Company has five classes, you know, five
18 classes of metered service, the rates for which are
19 being established in this recommendation put before you
20 today. And that, if they wish to provide other types
21 of service, they are to come to the Commission for
22 approval of a new tariffed rate. So, I don't know if
23 there's an intention for new services to be put in
24 place at any of these locations, and I don't think we

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1 actually discussed that. But I think my understanding
2 is very clear, and I certainly would say that I hope
3 the Company's understanding is clear what their
4 obligations are, they must provide service only through
5 rates approved by the Commission. There's no
6 exceptions to that. There can't be.

7 Q. Well, I guess I had assumed that the 6-inch customer
8 was the Mount Washington Hotel. Is that incorrect?

9 A. (Naylor) That is correct.

10 Q. It is. So, the 6-inch customer is the Hotel?

11 A. (Witness Descoteau nodding in the affirmative).

12 A. (St. Cyr) Yes.

13 Q. And, if this is simply a matter that all of the water
14 that went to the Hotel before will now continue to go
15 to the Hotel, but it will be better accounted for,
16 charged appropriately on tariffed rates, and that the
17 revenues remain the same, then, that's good, and we've
18 cleaned up the confusion. But, if it's a matter that a
19 lot of water was going to the Hotel without being
20 charged for, then, obviously, it should be charged for.
21 But, also, then the revenue, all of the rate
22 design/revenue issues that you've worked out in the
23 Stipulation no longer would seem to be accurate. I
24 mean, I don't know what the volume of the water is

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1 we're talking about here in these items, the by-passes
2 that you've laid out here, (a) through (f). So, I
3 don't know how significant a change it is. But, you
4 know, similar to your concern about what's the right
5 customer count, isn't this also important to know,
6 whether the revenue requirement is being set
7 appropriately?

8 A. (Naylor) It certainly is. I think my, and I think we
9 should ask the Company representatives here to address
10 this, my understanding of it was that, at least in some
11 of these instances, water was being used for no cost.
12 That these are not directly -- these are not sources of
13 water, or "uses of water" I guess is a better way to
14 put it, that are otherwise -- would otherwise pass
15 through the Hotel meter. So, what the uses that, you
16 know, that was made of the water at these by-pass
17 locations, what their source will be now, I don't know.
18 I have no idea. I think it's a good question for the
19 Company to answer.

20 MR. BISBEE: Madam Chairman, could we
21 have one minute?

22 CHAIRMAN IGNATIUS: Please.

23 (Attorney Bisbee conferring with Company
24 representatives.)

[WITNESS PANEL: St. Cyr~Naylor~Descoteau]

1 CHAIRMAN IGNATIUS: All right. We're
2 back on the record. Mr. Bisbee.

3 MR. BISBEE: If I could just give you a
4 brief response, and then you can determine whether more is
5 desired. And, a little confusion that I wanted to just
6 clarify for my own sake. I had heard in discussions that
7 at least one or more of the by-passes, while they were
8 there physically, the Company had been told that they
9 weren't used, and never had been used, were there for
10 emergency use. And, the best example of that is the
11 by-pass at the main going into the Hotel. There is one
12 there, but the Hotel has told the Company that it's not
13 one they use, and it's there for emergency use, if such an
14 emergency arose.

15 The others, or at least most of the
16 others, are the basis for those estimated payments that
17 you've heard of and have questioned of the witnesses. The
18 Company did base -- did charge for those, for that use, it
19 was based on estimates provided by the Hotel. Because
20 they're estimates, it's not clear exactly how accurate
21 that use was. It was based on what the Hotel thought it
22 would have used. One example that we just were told about
23 is a hose coming off of one of the 1-inch mains, or one of
24 the smaller ones anyway, that was used at the Cabana. It

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1 was used a small amount, and it was that small amount that
2 was estimated and actually billed. So, that's the --
3 that's my summary of my understanding of it, madam
4 Chairman.

5 BY CHAIRMAN IGNATIUS:

6 Q. Do you, and maybe I should ask this to Ms. Descoteau,
7 the amount taken at the -- the revenue removed, looking
8 at your Page 19, your Schedule 6, --

9 A. (Descoteau) Yes.

10 Q. -- looks like, in the category of "unauthorized and
11 non-tariffed sales", 36,000, is that dollars, was
12 removed?

13 A. (Descoteau) What page are you looking at?

14 Q. Page 19 of the Stipulation Agreement, Exhibit 3. No,
15 I'm sorry. I think I'm misreading that. You have an
16 asterisk that says "Eliminates unauthorized and
17 non-tariffed sales".

18 A. (Descoteau) Right. That's removing the consumption
19 that was estimated by the Company.

20 Q. All right. And, so, does that mean that that's the
21 amount that was removed or that's the amount that
22 remains after things have been removed?

23 A. (Descoteau) That's the amount that remains after the
24 estimates were removed.

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1 Q. So, what's the magnitude of the water that, either in
2 gallons or in dollars, that you removed in your
3 calculations? How big a problem is this that we're
4 talking about?

5 A. (Descoteau) The dollar amount -- the dollar amount was
6 on Page 9. And, it was \$2,713 that was removed.

7 Q. So, the "Test Year Unmetered Water Sales" line?

8 A. (Descoteau) Right.

9 CMSR. HARRINGTON: If I can just follow
10 up on what that means, so I'm clear.

11 BY CMSR. HARRINGTON:

12 Q. That's the estimate of the cost of water that was sold
13 that didn't pass through a meter, and so it went out
14 through these by-pass lines?

15 A. (Descoteau) Correct.

16 Q. Okay. And, they used the -- whatever the consumption
17 rate was in effect at the time, and they said "well, we
18 estimate so many gallons", and the cost is so many per
19 gallon, so that's what we're going to collect?

20 A. (Descoteau) Correct.

21 Q. Okay. And, those revenues then, the \$2,713, they were
22 money that the Company received, and they physically
23 have, but they did not count as revenue towards setting
24 rates, is that correct?

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1 A. (Descoteau) Right.

2 Q. Okay. So, that would mean that, to some extent, I
3 don't know how significant that number is, that the
4 rates, not including that revenue, are slightly higher
5 than they would be if you had included that revenue?

6 A. (Naylor) Well, it's offset by the adjustment that
7 Chairman Ignatius points out on Page 19. If you look
8 at that calculation at the bottom of the page, the
9 calculation of the consumption rate, we removed the
10 estimated gallons there from the total sales for the
11 year.

12 Q. So, the 36 there is -- that's gallons then?

13 A. (Naylor) That's 36 million gallons.

14 Q. Okay.

15 A. (Naylor) Yes.

16 Q. Okay.

17 A. (Naylor) And, we removed the estimates of the gallons
18 sold in order to calculate the consumption rate. So,
19 we removed the dollars on one side and we removed the
20 gallons on the other, and we should get a correct rate.

21 Q. So, it should balance out correctly. But, as far as
22 going forward, let's just say everything's equal, and
23 this same amount of gallons is used, except now it goes
24 through the meter, that that would tend to reduce the

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1 charges for next year, because at least to the point of
2 the fixed charges don't go up at all when you use more
3 water. If you use more water, the fixed charges should
4 go down slightly.

5 A. (Descoteau) Correct.

6 A. (Naylor) Yes. That's right. I think what you're
7 driving at is that the Company has the potential to
8 overearn, or the rates we're asking you to set here may
9 be too high.

10 Q. That's exactly what I'm inquiring about. Yes.

11 A. (Naylor) And, I -- I mean, I don't know. That's a
12 question, and as I indicated, I think it's a good
13 question. We don't know. Will those -- and it points
14 out the problem with the practice of non-tariffed
15 sales, that it just creates all kinds of problems.

16 Q. Well, maybe I could --

17 A. (Naylor) That's why we were, and, frankly, we had not
18 considered the impact that those dollars -- that those
19 gallons may be made up through the normal rate paying
20 process, if you will, that those gallons will be paid
21 for appropriately. That means that potentially we're
22 setting the rates too high here.

23 Q. And, can I ask the Company then to follow up on that?
24 Did they see any reason to believe that, once these

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1 by-passes are shut off, that they're going to get this
2 water from someplace else? I mean, I'm assuming you're
3 not just wasting the water for the sake of wasting it.
4 So, it probably went to some necessary function. So,
5 do they have any plans to import water from anyplace
6 other than this water company, once the by-passes are
7 shut?

8 MR. HAHAJ: No.

9 CMSR. HARRINGTON: So, it's reasonable
10 to assume that you will use this same amount of water, in
11 addition, this would be added in in addition to the normal
12 consumption? The "metered consumption", I should say.

13 MR. BISBEE: Right.

14 MR. HAHAJ: Yes, that's reasonable.

15 CMSR. HARRINGTON: Okay. I got an
16 answer, I don't know what to do with it. Thank you.

17 BY CHAIRMAN IGNATIUS:

18 Q. So, Mr. Naylor, how will you and your division track
19 those sales and revenues going forward, to make sure
20 that we haven't created a revenue requirement that
21 really isn't realistic?

22 A. (Naylor) Well, that's a good question. Typically, what
23 we would be doing, particularly with the smaller
24 companies that don't report to us monthly or quarterly,

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1 excuse me, we track their annual reports and we
2 calculate their earnings on an annual basis. It's
3 pretty rare when a small water utility is overearning.
4 There has to be some extraordinary circumstances.
5 Maybe one of the things we could do would be for the
6 Company to file perhaps quarterly financial statements,
7 calculations of its rate of return on a quarterly
8 basis. That would be helpful. That's always a little
9 bit of a tricky business with water utilities, because
10 their sales aren't uniform throughout the year. So,
11 water utilities typically look to the third quarter as
12 their, you know, their best quarter. So, measuring a
13 third quarter, and without any other adjustments, is
14 going to show a company making a lot of money.
15 Whereas, the first quarter results are not going to be
16 very good. But there's ways to adjust for that, by
17 using prior year comparisons and so forth. So, perhaps
18 that's one of the ways it could be done, would be to
19 have some quarterly reporting for a while, if you're
20 uncomfortable with the rates that we're recommending
21 here.

22 Q. How onerous is it to produce those quarterly reports?
23 I mean, I think we're not looking to make a lot of new
24 requirements on a company. But, at the same time, if

1 the whole structure of rates is dependent on certain
2 assumptions that we now are not certain are reliable,
3 then we need to do something to monitor it and see if
4 we're -- if we're really off base or not.

5 A. (Naylor) Yes. I think it's -- I think that's a good
6 idea for financial -- or, the quarterly financial
7 statements certainly would be something we could track.
8 And, as I said, look at, you know, a couple of, you
9 know, in prior years, and it's -- it's not an exact
10 science, because of all the things that can change,
11 sales levels and, of course, cost increases and so
12 forth. Even if we make the assumption, if we went to
13 the assumption that these sales will now -- these
14 off-system or non-tariffed sales will be rerouted
15 through a meter and, therefore, the rates you're being
16 asked to approve are probably a little bit too high.
17 Pretty likely that there will be other cost increases
18 that will offset it. That's not an excuse for it, but
19 it's true. And, we've seen it in, you know, many of
20 the utilities, particularly the waters, with small
21 water companies, with the pressure of property taxes
22 and so forth, it's -- we very rarely see them overearn.
23 But I think quarterly financial statements will help us
24 keep a closer eye on it.

1 MR. BISBEE: Madam -- oh, I'm sorry.

2 BY CHAIRMAN IGNATIUS:

3 Q. Well, I was just wondering whether six-month intervals,
4 rather than three-month intervals, would that give you
5 enough information without quite as much of a task
6 imposed on the Company?

7 A. (Naylor) Yes, I guess that would -- it would be okay.
8 I think quarterly is ideal, because it will match their
9 billing periods. And, the four quarters of the year
10 are, you know, sort of recognizable, in terms of the
11 first quarter is usually the slowest. That's
12 considered to be the base consumption for a water
13 system. In other words, January, February, and March
14 have virtually zero outside usage. So, when we look at
15 sales volumes for the first quarter, it's strictly
16 indoor use. Then, you can make some assumptions about
17 second quarter. Third quarter is the summer. You
18 know, so that's going to be the highest outside use.
19 And, then, back to the fall, which is like a shoulder
20 season. So, the quarterly numbers make more sense. I
21 don't think it's burdensome for the Company to do
22 quarterlies, for awhile.

23 BY CMSR. HARRINGTON:

24 Q. And, Mr. Naylor, just one question. You were saying

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1 that "the first quarter would be the lowest." But,
2 given the ski area up there and the amount of activity
3 in the winter, would that be accurate?

4 A. (Naylor) Yes.

5 Q. I mean, I've been there in the wintertime, it's pretty
6 busy.

7 A. (Naylor) Yes, that's true. I'm talking generally about
8 water utilities, in terms of how they look at --

9 Q. And, given this, it may be the second --

10 (Court reporter interruption.)

11 BY CMSR. HARRINGTON:

12 Q. The second quarter may be the lowest, with the first --
13 the third quarter probably being the biggest, because
14 of the outside use in the summer.

15 A. (Naylor) That's right.

16 Q. But I think January, February, and March would be
17 fairly significant as well usage.

18 A. (Naylor) Yes. I was talking sort of generally about
19 water utilities in the state that we're familiar with,
20 that we regulate. Those are the trends that we see
21 with the quarters. But, certainly, with this company,
22 we expect that to be different.

23 CHAIRMAN IGNATIUS: Mr. Bisbee.

24 MR. BISBEE: Yes. Thank you, madam

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1 Chairman. I don't personally know how onerous this would
2 be. It would be an added requirement, obviously, to
3 address an appropriate issue, if it's an appropriate
4 issue. And, so, I want to raise two points. It would be
5 an added requirement. And, if it weren't absolutely
6 necessary to do it, then the annual reporting would be
7 another mechanism to catch this.

8 But the other side of the question is,
9 I'm still not clear, and this is -- I'm sorry if I'm
10 taking up your time for something that you already
11 understand, but we began with Mr. Naylor pointing out
12 Attachment A, Schedule 1, on Page 9, and backing out of
13 the revenue requirement the amount that had come in. So,
14 I'm just wondering why that didn't address this issue, if
15 not fully, at least to a large extent?

16 CHAIRMAN IGNATIUS: I'll tell you my
17 concern is that, and correct me please, anyone, if I'm
18 wrong, if we're assuming, in the same way we were talking
19 about over 404 customers or not. If we agree that there's
20 404 customers, and yet there's actually 420 customers,
21 then you're going to be receiving additional revenues
22 without them being part of that calculation. Here, if
23 you're assuming a certain level of water sales, and you've
24 removed the ones that weren't tariffed, but, as you said,

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1 the Company is going still get its water -- the Hotel is
2 still going to get its water from the Company, then you've
3 -- my fear is you've artificially lowered the amount of
4 revenue by taking that out, when it's going to be right
5 back again and yet isn't part of the calculations. And,
6 so, it's sort of your revenue requirement is now, through
7 all the other customers, recovering fully what you need,
8 and this is just extra on top. And, am I getting it
9 muddled there? How's it look to you, Mr. Naylor?

10 WITNESS NAYLOR: I don't think you are.
11 And, I think it's a legitimate concern. Certainly, it's a
12 legitimate concern of Staff. But, you know, I'm hearing
13 something different from the Company on it. At this
14 point, I think, I mean, the way this reads on Page 6, we
15 are recognizing two different types of issues. We're
16 recognizing not non-tariffed sale of water, which are
17 volumes times the consumption rate. And, the Company has
18 received some dollars for that. We are also recognizing
19 "unauthorized" use of water from the water system. That
20 has been my working understanding all along. Which means
21 there is water being taken from the water system that has
22 not been paid for at all. And, if the Company's position
23 now is that there's only one type of water being used, and
24 that's the non-tariffed, then, I have a problem, because

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1 I've been led to believe that there's two kinds of water
2 that are at issue here.

3 CHAIRMAN IGNATIUS: I think we ought to
4 look to quarterly reporting. But I would ask the Staff to
5 develop or give an example of a report that you find
6 adequate, so it's absolutely clear to the Company what it
7 should be -- what it should be reporting on, and not have
8 to guess at the components that you would want to be
9 monitoring, if we approve the stipulation.

10 One other question.

11 MS. BROWN: Can I add --

12 CHAIRMAN IGNATIUS: Please.

13 MS. BROWN: -- ask a clarifying question
14 on this reporting. Is we haven't addressed the term of
15 this reporting, how long the Company should be expected?
16 And, I think it would be helpful to just pin that down
17 while we're talking about it.

18 CHAIRMAN IGNATIUS: Well, I think, why
19 don't we discuss that. And, if we approve this, we'll
20 include that in the order.

21 MS. BROWN: Okay.

22 CHAIRMAN IGNATIUS: I appreciate that.

23 BY CHAIRMAN IGNATIUS:

24 Q. On the vastly changing picture of who owns what, that

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1 I'm sure has been complicated for everyone to keep
2 track of, is it now clear what the ownership structure
3 is? And, is there a mechanism for notifying the
4 Commission when there are further changes? And, I look
5 at this chart that was back from 2006 that's in the
6 Audit Report. And, lots of -- every time you turn
7 around there's been another change. Is it -- does the
8 Staff feel it has a good handle on who owns what and
9 under what terms at this point?

10 A. (Naylor) You referenced Page 6 of the Audit Report?

11 Q. No, Page 2. I'm sorry if I misspoke. Page 2 and 3.
12 And, that notes that it's old. It's from 2006.

13 A. (Naylor) Right.

14 Q. So, this wouldn't be current anyway.

15 A. (Naylor) I don't think we have any concern about it at
16 this point. I know there was an issue raised with
17 respect to -- I see the references to numbers, to Audit
18 Issue 3, if that's the one I'm thinking of. No. I
19 think there was an issue with a tax return that was
20 reviewed. I think it's discussed in the Audit Report.
21 There was -- the ownership of Rosebrook was listed as
22 somebody else owned it, rather than the BW Land
23 Holdings. And, I think the Company has indicated that
24 was a mistake, and it was corrected. And, I don't

1 think there's any confusion now.

2 Q. And, is it -- you said you're confident that, if
3 there's further change in the ownership structure, that
4 you'll be notified?

5 A. (Naylor) Well, the Company has a docket that's pending
6 before you. It's a request to transfer the stock of
7 the Company to Wells Fargo. And, that docket is
8 awaiting the result of the rate case. So, I suspect
9 we'll have some additional discussions at some point on
10 that.

11 CMSR. HARRINGTON: No, just one final
12 comment, I guess, on this unmetered sales thing. There's
13 another, if you look at Audit Item 24, where it talks
14 about they were using the Hotel pump station -- it's Audit
15 Item 24, on Page 69 of the Audit Report, called "Unmetered
16 Sales". Says "Unmetered sales relating to hydrant use are
17 estimated by knowing the gallons per minute of flow rate
18 of the meter, then applying the 1000 gallon usage charge.
19 This manner of estimating usage is use for the Hotel pump
20 station and for the tubing hill." And, it says "Audit is
21 unaware of how the other unmetered sales customers are
22 calculated, specifically relating to the Carpenter Shop
23 and Mount Washington Place." And "The Company will make
24 every effort to minimize unmetered sales relating to

1 hydrants." So, I guess it's beyond the places listed in
2 the Stipulation Agreement. There's also outdoor hydrants.
3 And, I'm not exactly sure how much water was related to
4 that tubing hill, but there's got to be quite a bit of it
5 there. So, it's just another place where we could be
6 getting water that's not accounted for.

7 That was all I had.

8 CHAIRMAN IGNATIUS: All right. No
9 further questions. Is there any redirect?

10 MS. BROWN: Yes. I just have a couple
11 of questions.

12 **REDIRECT EXAMINATION**

13 BY MS. BROWN:

14 Q. Mr. Naylor, you were asked some questions about Page 6
15 of the Stipulation, Paragraph 2, "Metered By-Pass and
16 Unmetered Sales", and I just want to clarify. Did you
17 testify that it was your understanding or assumption
18 that the non-tariffed and unauthorized uses that are
19 listed in the paragraph would just go into the other
20 meters, such as the 6-inch meter for the Hotel?

21 A. (Naylor) I don't think that's what I testified.

22 Q. If you could clarify. Thank you.

23 A. (Naylor) I think I indicated, in response to a question
24 from Chairman Ignatius, that the issue she raised was

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1 something that Staff had not considered. That
2 terminating these by-passes could potentially put water
3 flowing through another meter somewhere, you know, a
4 meter that has a properly authorized rate. But I don't
5 -- I don't know the specifics of these. We had not
6 considered the fact that other, you know, that there
7 may still be a need for water at these locations that
8 would be met by normal metered sales from the utility.

9 Q. Thank you. The only other question I had was with
10 respect to the proposed quarterly reporting. Do you
11 have any opinion on a term of how long you'd recommend
12 that occur?

13 A. (Naylor) That's probably a couple of years.

14 MS. BROWN: No further redirect.

15 CHAIRMAN IGNATIUS: All right. Thank
16 you. And, anything else from the Company on redirect?

17 MR. BISBEE: Not a question. But, if I
18 could respond in part to Commissioner Harrington's inquiry
19 a minute ago about Audit Finding Number 24. We could just
20 confirm that the Hotel pump station and tubing hill that
21 were unmetered are now metered. That has been addressed.
22 And, I could also add that the audit finding includes a
23 reference to the Carpenter Shop, which you'll find also on
24 the list of those unmetered locations that are going to be

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1 eliminated.

2 CMSR. HARRINGTON: Thank you.

3 CHAIRMAN IGNATIUS: All right. Then,
4 the witnesses are excused. But why don't you stay put,
5 just to finish up here.

6 Is there any objection to striking the
7 identification on the exhibits and making them full
8 exhibits?

9 (No verbal response)

10 CHAIRMAN IGNATIUS: Seeing none, we'll
11 do that. We note there is one record request, that was
12 Exhibit Number 5, that was a identification of the meters
13 by class, confirming that the customer counts are as
14 they're stated in Schedule 6, or explaining what they are
15 if it differs. And, the deadline for submission of that?
16 Is a week, two weeks sufficient time? I know you wanted
17 an order fairly quickly. So, I guess we want to bring
18 that count down.

19 MR. BISBEE: We'd recommend the date
20 that is the same for the CPR submission date, which is two
21 weeks, roughly, the end of September.

22 CHAIRMAN IGNATIUS: So, September 30th?

23 MR. BISBEE: Yes.

24 CHAIRMAN IGNATIUS: All right. All

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1 right, we'll do that. Then, anything, other than closing
2 statements?

3 (No verbal response)

4 CHAIRMAN IGNATIUS: All right. Then,
5 why don't we begin first with Ms. Brown.

6 MS. BROWN: Thank you, Commissioners,
7 again for allowing a delay in the hearing today, so we
8 could -- at least Staff could respond to the change in the
9 meter numbers. And, as you've heard from Staff witnesses,
10 they feel comfortable that they've caught all of the other
11 subsequent changes that would result from the changes in
12 the meters. So, we feel pretty confident that the numbers
13 in the Stipulation are accurate.

14 Again, thank you for your time today.
15 And, Staff recommends the Commission approve the
16 Stipulation Agreement. Thank you.

17 CHAIRMAN IGNATIUS: Thank you. And, for
18 closing from the Company, I don't know, Mr. St. Cyr, if
19 you want to do that from where your seated?

20 MR. ST.CYR: Just briefly. We
21 appreciate working with Staff throughout the proceeding,
22 particularly this morning. We appreciate the Commission's
23 patience with us in the delay of the proceeding. We are
24 certainly in agreement with the Stipulation Agreement, and

1 respectfully request that you approve that.

2 CHAIRMAN IGNATIUS: Anything that,
3 Mr. Bisbee, you want to add?

4 MR. BISBEE: If I could ask, madam
5 Chairman, for Mr. Hahaj just to say a few words of thanks
6 and other observations as we close?

7 CHAIRMAN IGNATIUS: That's fine.

8 MR. HAHAJ: Yes. On behalf of the
9 Company, I'd like to thank the Commission, and
10 particularly the Staff, for working with us to help
11 resolve the issues that the Company has had in the past.
12 It's my great concern that we accurately have a reflection
13 of the Company going forward. And, I appreciate this
14 opportunity to do just that.

15 CHAIRMAN IGNATIUS: Thank you.
16 Ms. Holahan, anything to add?

17 MS. HOLAHAN: No. Thank you.

18 CHAIRMAN IGNATIUS: All right. There's
19 no problem at all in delaying, we have plenty of work to
20 do upstairs. And, I'm just glad that we were able to have
21 as cleaned up as possible set of documents. That it gets
22 to be really complicated when we're trying to make changes
23 on the fly, and each exhibit, you know, one change
24 requires ten different schedules to be adjusted. So,

1 thank you for everybody working on it this morning.

2 We'll take this under advisement. We
3 understand you have a billing schedule that has a short
4 time frame. And, we'll do what we can to have an order
5 out in time to accommodate that.

6 MR. ST. CYR: Thank you.

7 CHAIRMAN IGNATIUS: Thank you. We're
8 adjourned.

9 **(Whereupon the hearing ended at 1:48**
10 **p.m.)**

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