

## 1 STATE OF NEW HAMPSHIRE

## 2 PUBLIC UTILITIES COMMISSION

3  
4 **December 2, 2013 - 10:17 a.m.**  
5 Concord, New Hampshire

NHPUC DEC17'13 AM10:44

6  
7 RE: DW 13-236  
8 WHITE ROCK WATER COMPANY, INC.  
9 AND LAKELAND MANAGEMENT COMPANY, INC.:  
10 *Sale of Utility Assets of White Rock*  
11 *Water and Lakeland Management to*  
12 *Abenaki Water Company, Inc.*

13  
14  
15 **PRESENT:** Chairman Amy L. Ignatius, Presiding  
16 Commissioner Robert R. Scott  
17 Commissioner Michael D. Harrington

18  
19 Clare Howard-Pike, Clerk

20  
21 **APPEARANCES:** Reptg. Abenaki Water Company, Inc.:  
22 Carol J. Holahan, Esq. (McLane, Graf...)  
23 Steven V. Camerino, Esq. (McLane, Graf...)

24  
25 Reptg. Lakeland Management Company and  
26 White Rock Water Company, Inc.:  
27 David W. Jordan, Esq.

28  
29 Reptg. PUC Staff:  
30 Marcia A. Brown, Esq.  
31 Michael Sheehan, Esq.  
32 Mark Naylor, Director/Gas & Water Division  
33 Robyn Descoteau, Gas & Water Division

34  
35 Court Reporter: Steven E. Patnaude, LCR No. 52

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**I N D E X**

**PAGE NO.**

**WITNESS PANEL:**            **DONALD J. E. VAUGHAN**  
   **DEBORAH O. CARSON**  
   **MARK A. NAYLOR**

Direct examination by Ms. Holahan	9, 56
Direct examination by Ms. Brown	19
Interrogatories by Cmsr. Harrington	45, 57, 69
Interrogatories by Cmsr. Scott	60
Interrogatories by Chairman Ignatius	63
Redirect examination by Ms. Holahan	69
Redirect examination by Ms. Brown	71

**PUBLIC STATEMENTS BY:**

**PAGE NO.**

Mr. Edy	75
Ms. Crystall	76
Mr. Hammond	76

**CLOSING STATEMENTS BY:**

**PAGE NO.**

Ms. Brown	79
Ms. Holahan	83
Mr. Jordan	85

**FURTHER QUESTIONS BY:**

Chairman Ignatius	82
Cmsr. Harrington	83

**E X H I B I T S**

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1		
2		
3		
4	1 Direct Testimony of	9
5	Deborah O. Carson, including	
	attachments (08-09-13)	
6	2 Direct Testimony of	9
7	Donald J. E. Vaughan, including	
	attachments (08-09-13)	
8	3 Settlement Agreement (11-21-13)	9
9	4 Joint Petitioner's response to	9
10	Staff Data Request 1-3, Sample	
	of Customer Bill Formats	
11	5 Joint Petitioner's responses to	56
12	Questions 1 through 4 of Comment	
13	by Amy Hooper, on behalf of Village	
	Shores Estates Association	
14	6 <b>RESERVED</b> (Record request indicating	79
15	the resolution between the buyer	
16	and seller regarding the easement	
17	issue)	
18		
19		
20		
21		
22		
23		
24		

**P R O C E E D I N G**

1  
2 CHAIRMAN IGNATIUS: I'd like to open the  
3 hearing in Docket DW 13-236. This is White Rock and  
4 Lakeland Management's Joint Petition, along with Abenaki  
5 and New England Services, and a whole lot of entities,  
6 regarding a proposed transaction for the acquisition of  
7 Lakeland and White Rock, and a number of other requested  
8 approvals. This has been set for hearing on the merits  
9 this morning by a procedural schedule worked out back in  
10 October.

11 And, let's begin first with appearances.  
12 And, then, I'll be interested in hearing afterwards  
13 people's ideas on the best way to conduct the hearing this  
14 morning, if we're going to have a panel of witness or  
15 who's planning on testifying. So, we'll begin with  
16 Ms. Holahan.

17 MS. HOLAHAN: Thank you. Good morning.  
18 Carol Holahan, from the McLane firm, here on behalf of  
19 Abenaki Water, a wholly owned subsidiary of New England  
20 Service Company. With me today are Steven Camerino, my  
21 colleague from McLane; Don Vaughan, President of New  
22 England Service; and Deborah Carson, Treasurer of New  
23 England Service, both of whom filed prefiled testimony in  
24 this matter.

1 CHAIRMAN IGNATIUS: Good morning, and  
2 welcome.

3 MS. HOLAHAN: Thank you.

4 MR. JORDAN: Good morning,  
5 Commissioners. I'm David Jordan. I appear on behalf of  
6 Lakeland Management Company and White Rock Water Company.  
7 And, with me is Theresa Crawshaw, President of both  
8 Companies.

9 CHAIRMAN IGNATIUS: Good morning, and  
10 welcome.

11 MS. BROWN: Good morning, Commissioners.  
12 Marcia Brown, on behalf of Staff. And, with me today is  
13 Mark Naylor, who will be participating on a panel with Deb  
14 Carson and Don Vaughan from the Company, along with Mike  
15 Sheehan and Robyn Descoteau.

16 There are some non-intervenors in  
17 attendance today. And, I know that it's usually customary  
18 to have them at least put their name into the record.  
19 They are from the Homeowners Association, I believe.

20 CHAIRMAN IGNATIUS: That would be great.  
21 Who do we have from the Homeowners?

22 MR. EDY: My name is Don Edy, E-d-y.  
23 And, I'm on the Board of Directors of the Village Shore  
24 Association.

1 CHAIRMAN IGNATIUS: The Village Shores  
2 Association?

3 MR. EDY: Village Shore Estates  
4 Association.

5 CHAIRMAN IGNATIUS: And, that's in Bow,  
6 correct?

7 MR. EDY: That's in Bow, serviced by the  
8 White Rock Water Company.

9 MS. CRYSTALL: Sandy Crystall, resident  
10 of VSEA.

11 MR. HAMMOND: Fred Hammond, resident of  
12 VSEA.

13 CHAIRMAN IGNATIUS: All right. We often  
14 have customers of companies who want to make a public  
15 comment, even though they didn't formally intervene and  
16 file testimony. And, if that's something that any of the  
17 three of you would like to do first, we can do that, and  
18 then you don't have to stay for the full hearing. If  
19 you'd like to stay and just listen, and then, at the end,  
20 if you have a comment, that's fine as well. So, it's  
21 really your preference. If anyone would like to speak  
22 first, just give me a wave?

23 (No verbal response)

24 CHAIRMAN IGNATIUS: If not, we'll get

1 back to you at the end and see if there's something that  
2 you want to add. But you won't be able to question the  
3 witnesses. That's the difference between being an  
4 intervenor and just an interested party who's sitting in.

5 Then, are we ready for putting the panel  
6 on?

7 MS. BROWN: Yes. The panel is going to  
8 be Don Vaughan, Deb Carson, and Mark Naylor. By  
9 agreement, we have set before you copies of exhibits that  
10 we intend to cover with that panel. If I could just  
11 identify for the record at this point, Exhibit 1 we  
12 propose to have Don Vaughan's testimony and attachments as  
13 one stand-alone exhibit. The copy in front of you is  
14 sequentially numbered. It didn't arrive that way with the  
15 sequentially numbered pages in the initial filing, but the  
16 content has not changed, other than that numbering, if  
17 you've made notes on your initial filed copy.

18 CHAIRMAN IGNATIUS: Thank you.

19 MS. HOLAHAN: I think that's actually  
20 Exhibit 2. I think Exhibit 1 is Deborah Carson's  
21 testimony.

22 CHAIRMAN IGNATIUS: Oh, I think you're  
23 right. On the top, it's printed.

24 MS. HOLAHAN: Yes. Yes. And, then

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Exhibit 3 is the Settlement Agreement. Sorry about that,  
2 Marcia.

3 MS. BROWN: Thank you for keeping me on  
4 my toes. Thank you for that correction. So, that would  
5 be Exhibit 2, Don Vaughan's testimony and attachments,  
6 Exhibit 1 would be the testimony of Deborah Carson and  
7 attachments, sequentially numbered. There is no  
8 difference in content from what was initially filed and  
9 this exhibit. Exhibit 3 is the Settlement Agreement.  
10 And, Exhibit 4 is a copy from discovery of sample bill  
11 formats that we'll be talking about with the panel today.

12 CHAIRMAN IGNATIUS: And, the Settlement  
13 Agreement is the same as the one that was filed with the  
14 Commission in late November, correct?

15 MS. BROWN: Correct. There's no content  
16 difference. The only difference is ensuring sequentially  
17 numbered pages.

18 CHAIRMAN IGNATIUS: Thank you. All  
19 right. We'll mark those for identification as  
20 "Exhibits 1" through "4". Assuming there's no objection  
21 from anyone?

22 MR. JORDAN: No objection.

23 CHAIRMAN IGNATIUS: Doesn't appear there  
24 is. All right. Thank you.

{DW 13-236} {12-02-13}



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 (The documents, as described, were  
2 herewith marked as **Exhibit 1, Exhibit 2,**  
3 **Exhibit 3, and Exhibit 4,** respectively,  
4 for identification.)

5 (Whereupon **Donald J. E. Vaughan,**  
6 **Deborah O. Carson,** and **Mark A. Naylor**  
7 were duly sworn by the Court Reporter.)

8 CHAIRMAN IGNATIUS: You can begin.

9 **DONALD J. E. VAUGHAN, SWORN**

10 **DEBORAH O. CARSON, SWORN**

11 **MARK A. NAYLOR, SWORN**

12 **DIRECT EXAMINATION**

13 BY MS. HOLAHAN:

14 Q. Mr. Vaughan, would you please state your full name for  
15 the record.

16 A. (Vaughan) Donald J. E. Vaughan.

17 Q. And, by whom are you employed?

18 A. (Vaughan) New England Service Company.

19 Q. And, what is your position with New England Service  
20 Company?

21 A. (Vaughan) I am President and Chief Operating Officer.

22 Q. And, as President and Chief Operating Officer, what are  
23 your job responsibilities?

24 A. (Vaughan) Generally, my responsibilities are

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 administration, oversight of operations, oversight of  
2 financial transactions, capital construction, customer  
3 service.

4 Q. Did you submit prefiled testimony in this matter on  
5 August 9th, 2013?

6 A. (Vaughan) I did.

7 Q. Which has been marked for identification as "Exhibit 2"  
8 today?

9 A. (Vaughan) I did.

10 Q. Was this document prepared by you or at your direction?

11 A. (Vaughan) Yes.

12 Q. Do you have any changes or corrections to this prefiled  
13 testimony at this time?

14 A. (Vaughan) The only thing that might be of interest is  
15 that we have received a decision from the Massachusetts  
16 Commission to acquire Plymouth Water Company, in  
17 Plymouth, Massachusetts. It's about 800 customers.  
18 And, that system will be set up as a separate C Corp.  
19 subsidiary to New England Service Company.

20 Q. Okay. And, if I were to ask you the same questions  
21 that are contained in your testimony in Exhibit 2  
22 today, would your answers be the same?

23 A. (Vaughan) Yes.

24 Q. Can you please explain the corporate relationship

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

- 1           briefly between New England Service and Abenaki Water?
- 2   A.   (Vaughan) Abenaki Water will be set up as a C Corp.
- 3           subsidiary wholly owned by New England Service Company.
- 4   Q.   And, essentially, Abenaki was created to hold the
- 5           assets ultimately to be transferred by White Rock and
- 6           Lakeland?
- 7   A.   (Vaughan) Yes.
- 8   Q.   In addition to White Rock and Lakeland, are there any
- 9           other entities that you are acquiring as part of this
- 10          transaction?
- 11   A.   (Vaughan) Yes. We are acquiring C&C Water Services.
- 12   Q.   And, what is C&C's role with respect to the ongoing
- 13          operations or the current operations of White Rock and
- 14          Lakeland?
- 15   A.   (Vaughan) C&C's role will be virtually the same as it
- 16          is now. Which means that they will be providing all
- 17          the operating services, the operation daily to White
- 18          Rock and to Lakeland Management Company.
- 19   Q.   Okay. Just for clarification, C&C is the current
- 20          operator of both of those systems?
- 21   A.   (Vaughan) That is correct.
- 22   Q.   Okay. Thank you. They are not a regulated entity by
- 23          this Commission, however?
- 24   A.   (Vaughan) That's correct.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Q. Do you believe that the acquisition of C&C will enable  
2 you to provide a seamless transition to the New  
3 Hampshire customers currently served by White Rock and  
4 Lakeland?

5 A. (Vaughan) Yes. I do believe that we are hiring and  
6 taking on the current operator, Alex Crawshaw, who is  
7 the operator now. He will be working directly for New  
8 England Service Company. I see really no disruption of  
9 service. I think it will be a very smooth transition.

10 Q. Are there currently members of the New England Service  
11 Company's Board of Directors that have experience with  
12 New Hampshire or utility experience generally that you  
13 believe will enable you to make a successful foray into  
14 New Hampshire?

15 A. Yes. They are Steve Densberger, who was with  
16 Pennichuck, and has since retired. Steve is on our  
17 board, on the Abenaki Board, as well as Bonnie Hartley,  
18 who is also on the Abenaki Board. And, we also have on  
19 our main board, the New England Service Company Board,  
20 Hank Mulle, who is very familiar with water utilities,  
21 particularly with respect to cost of capital.

22 Q. Very recently, did it come to your attention that there  
23 may be an outstanding issue with respect to Village  
24 Shores Estate Homeowners Association?

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Vaughan) Yes.

2 Q. Can you briefly describe that issue?

3 A. (Vaughan) That issue results from an easement that  
4 Abenaki would be acquiring at this point, and it has to  
5 do with taxes relative to the assessed property on that  
6 particular easement.

7 Q. Okay. So, essentially, perhaps there are two issues.  
8 One is, there is a possible outstanding amount that may  
9 or may not be owed to the Association, is that correct?

10 A. (Vaughan) That is correct.

11 Q. And, what is your understanding about the status of  
12 those discussions with the Association?

13 A. (Vaughan) My understanding is that current ownership is  
14 working with the -- they're trying to resolve that  
15 particular issue.

16 Q. And, then, there is that separate, but related, issue  
17 of whether that easement is necessary to ongoing  
18 utility operations, correct?

19 A. (Vaughan) That is correct.

20 Q. And, that is the issue that is also being considered by  
21 discussions with the Association, is that correct?

22 A. (Vaughan) Yes.

23 Q. And, if it is determined that that easement is not  
24 necessary to the ongoing operations of the utility,

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 would it be New England's -- excuse me, would it be  
2 Abenaki's desire to carve that easement out of the  
3 existing Asset Purchase Agreement that was previously  
4 agreed to by the parties?

5 A. (Vaughan) Yes, it would.

6 Q. Mr. Vaughan, did you participate in the settlement  
7 discussions that resulted in this Settlement Agreement  
8 that has been marked for identification as "Exhibit 3"?

9 A. (Vaughan) Yes.

10 Q. Do you believe that that agreement is a fair and  
11 reasonable compromise?

12 A. (Vaughan) I do.

13 Q. And, do you believe that that agreement is in the  
14 public interest?

15 A. (Vaughan) Yes.

16 Q. Thank you. Ms. Carson, could you please state your  
17 full name for the record.

18 A. (Carson) Deborah O. Carson.

19 Q. And, by whom are you employed?

20 A. (Carson) New England Service Company.

21 Q. What is your position with the Company?

22 A. (Carson) I'm Treasurer and Office Manager.

23 Q. And, as Treasurer and Office Manager, what are your job  
24 responsibilities?

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Carson) Management of daily office tasks relating to  
2 New England Service Company, as well as its  
3 subsidiaries, and financial reporting.

4 Q. Did you submit prefiled testimony in this matter on  
5 August 9th, 2013 that has been marked today for  
6 identification as "Exhibit 1"?

7 A. (Carson) Yes.

8 Q. Was this document prepared by you or at your direction?

9 A. (Carson) Yes.

10 Q. Do you have any changes or corrections to your prefiled  
11 testimony at this time?

12 A. (Carson) No.

13 Q. If I were to ask you the same questions that are  
14 contained in that testimony in Exhibit 1 today, would  
15 your answers be the same?

16 A. (Carson) Yes.

17 Q. Did you handle the research and negotiations for the  
18 financing or proposed financing of the purchase of  
19 White Rock and Lakeland?

20 A. (Carson) Yes, I did.

21 Q. Can you briefly describe the financing options you  
22 considered?

23 A. (Carson) We submitted offers from two different banks,  
24 as well as there were -- there was the option of

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 acquiring the SRF loan or not using financing at all.

2 Those were all options that we considered.

3 Q. And, which option did you consider to be the best  
4 option?

5 A. (Carson) The offer that was proposed to us from CoBank.

6 Q. And, can you briefly describe the terms of that offer?

7 A. (Carson) Yes. A 10-year loan of up to 300,000, at a  
8 rate, as of two weeks ago, it was at 3.75, less a  
9 patronage of 75 basis points, which would bring it to a  
10 3 percent interest rate.

11 Q. And, are those terms substantially similar to the terms  
12 that were submitted in your prefiled testimony?

13 A. (Carson) Yes.

14 Q. Do you anticipate that there will be any other changes,  
15 other than minor changes perhaps, between the -- before  
16 the sale is consummated?

17 A. (Carson) No major changes.

18 Q. Do you believe that the rates and terms of the  
19 financing are commercially reasonable?

20 A. (Carson) Yes. I believe we had very competitive  
21 offers.

22 Q. Did you participate in the settlement discussions that  
23 resulted in the Settlement Agreement that has been  
24 marked for identification as "Exhibit 3" today?

{DW 13-236} {12-02-13}



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Carson) Yes.

2 Q. Do you believe that the Agreement is fair and  
3 reasonable?

4 A. (Carson) Yes.

5 Q. Do you believe that the Agreement is in the public  
6 interest?

7 A. (Carson) Yes.

8 MS. HOLAHAN: Thank you. All set for  
9 cross-examination.

10 MS. BROWN: Chairman Ignatius, Staff  
11 would like to make a record request, because there is a  
12 straggler issue about how payment of taxes on an easement  
13 is going to be handled. Right now, Staff is speaking in  
14 support of a settlement agreement that presumes the  
15 easement is coming with the purchase and that the  
16 resolution of the tax issue will occur. And, we'd like to  
17 have a record request for that information to be filed in  
18 a couple weeks. But I guess I defer to Attorney Jordan on  
19 a time frame for that update.

20 CHAIRMAN IGNATIUS: Well, how about we  
21 first, if you can establish through the witnesses any of  
22 the details, it may be some of the things we could already  
23 get on the record from people here, and then the remaining  
24 issues that can't be resolved from your questioning we

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 then identify as a record request. I'm not opposed to  
2 more detail. Clearly, from the testimony of Mr. Vaughan,  
3 there's more information we need about the easement issue.  
4 But, before we jump straight to a record request, maybe  
5 identify the specific questions you have and what these  
6 witnesses can or can't answer to today. Mr. Jordan.

7 MR. JORDAN: I believe what Attorney  
8 Brown is talking about is that she wants from us a  
9 statement "it has been resolved and how" or "it hasn't  
10 been resolved". Not submitting the question to the  
11 adjudication of the Commission, but just informing the  
12 Commissioners and the Staff of what we've done on it.

13 CHAIRMAN IGNATIUS: I think that's fine.  
14 I think it would be helpful today, though, to hear what  
15 the anticipated timing is, how it will be resolved, is it  
16 something filed in the courts, is it something just  
17 submitted to us, that Mr. Vaughan, if he's able to respond  
18 to, would be helpful. And, then, whatever we don't know  
19 could be supplemented, and also a final resolution report  
20 on what that is.

21 But I have a question, certainly. If  
22 you don't, that's fine. I'll pursue it. But why don't we  
23 see where we go first, before we identify a record  
24 request.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 MS. BROWN: The only comment I have is,  
2 I'm not aware that any of the paneled witnesses will be  
3 able to speak to that with the specificity that Staff is  
4 seeking, but we can hold off on the record request. But I  
5 don't even know if White Rock or Lakeland are in a  
6 position today to even know what the resolution is going  
7 to be.

8 CHAIRMAN IGNATIUS: All right. Why  
9 don't we try to get that from witnesses on the record.  
10 And, then, what we can't get that way, we'll look for  
11 other ways to develop it. Mr. Jordan, did you have any  
12 direct questioning?

13 MR. JORDAN: No ma'am.

14 CHAIRMAN IGNATIUS: Thank you. Ms.  
15 Brown, questions?

16 BY MS. BROWN:

17 Q. Mr. Naylor, can you please state your name and position  
18 for the record please?

19 A. (Naylor) Yes. My name is Mark Naylor. And, I'm the  
20 Director of the Gas and Water Division here at the New  
21 Hampshire Public Utilities Commission.

22 Q. As a Director of the Gas and Water Division, can you  
23 identify what you do in that capacity?

24 A. (Naylor) Yes. I manage the staff of the Gas and Water

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Division, and primarily focus on the water and sewer  
2 dockets that are filed with the Commission.

3 Q. What is your area of expertise?

4 A. (Naylor) I'm an accountant.

5 Q. And, as part of your responsibilities, do you review  
6 acquisitions?

7 A. (Naylor) Yes. Any dockets that are filed with respect  
8 to water or sewer companies, that's our staff's  
9 responsibility, yes.

10 Q. And, is it also Staff's responsibility to opine on  
11 whether it believes the acquisition is for the public  
12 good?

13 A. (Naylor) Yes.

14 Q. Will the testimony you're offering today be within your  
15 area of expertise?

16 A. (Naylor) Yes, it will.

17 Q. Thank you. Mr. Vaughan, if I could just start with you  
18 initially, I just want to clarify. This purchase is  
19 for assets and liabilities, is that correct?

20 A. (Vaughan) Yes.

21 Q. And, debt that is currently held by White Rock and  
22 Lakeland is being assumed by Abenaki?

23 A. (Vaughan) It is not. It will be paid off.

24 Q. Thank you. Mr. Vaughan, I believe you describe how the

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 purchase price is to be determined in your -- in the  
2 attachment to your testimony. Could you please  
3 summarize that?

4 A. (Vaughan) Yes. The purchase price is spelled out in  
5 the Agreement, the Asset Purchase Agreement. And, it  
6 is related to the assets, really relevant to rate base  
7 of each water system, White Rock and Lakeland.

8 Q. And, for the record, if I could just -- I believe I'm  
9 directing your attention to Section 1.4 of the Purchase  
10 Agreement.

11 A. (Vaughan) Okay. Yes.

12 Q. Is that accurate for a description of what the purchase  
13 price formula is?

14 A. (Vaughan) Yes, it is. Yes.

15 Q. Okay. I'll let you summarize that formula. Thank you.

16 A. (Vaughan) Okay. Would you like me to go further  
17 into --

18 Q. I'd like you to summarize how the Companies are  
19 determining the purchase price.

20 A. (Vaughan) Okay.

21 Q. Thank you.

22 A. (Vaughan) The purchase price would be based on rate  
23 base. It would be the net plant, less contributions in  
24 aid of construction, less deferred taxes, plus

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 inventory, as it is spelled out in the Asset Agreement.  
2 And, it would be, I believe, established within a  
3 particular time frame of the closing.

4 Q. Thank you. Can you please explain the due diligence  
5 Abenaki took with respect to -- prior to purchasing  
6 White Rock and Lakeland?

7 A. (Vaughan) I went to meet the current owners of White  
8 Rock and Lakeland, and spent two or three days  
9 reviewing their systems physically, scoured the  
10 websites, the Commission's websites, also DES's, had  
11 several questions back and forth with current  
12 ownership, and viewed various places, such as the site  
13 of the inventory, and the present office, and became  
14 satisfied with that. We also relied on Company  
15 attorneys to investigate the real estate. And, after  
16 that, we evaluated those responses and looked at the  
17 whole purchase, the prospective purchase, and  
18 determined that we had done a fairly diligent job on  
19 the investigation.

20 Q. When did the issue of the easement and property taxes  
21 come up?

22 A. (Vaughan) The issue came up perhaps I want to say about  
23 a week or ten days ago.

24 Q. And, how were you made aware of that?

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Vaughan) We were made aware of it by actually an  
2 e-mail from the Department regarding I think it was  
3 four questions relative to White Rock. And, I think  
4 the first question had to do with the real estate taxes  
5 and that issue.

6 Q. And, when you say "Department", are you referring to  
7 the Public Utilities Commission?

8 A. (Vaughan) Yes.

9 MS. BROWN: And, Commissioners, I'd like  
10 to make an offer of proof at the moment. The e-mail that  
11 Mr. Vaughan is talking about was an e-mail that came in  
12 from the Homeowners Association to our Consumer Affairs  
13 Division. The Consumer Affairs Division brought it to the  
14 attention of Mr. Naylor. And, the questions from the  
15 homeowners, even though they're not intervenors, were  
16 passed along to the Company, so that they would be aware  
17 of the questions and could respond appropriately.

18 CHAIRMAN IGNATIUS: Thank you.

19 MS. BROWN: And, I know responses have  
20 been forwarded to the Homeowners Association.

21 BY MS. BROWN:

22 Q. Mr. Vaughan, moving onto the franchises, Abenaki is  
23 taking over the entirety of the footprint service  
24 territory of White Rock and Lakeland, is that correct?

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Vaughan) That is correct.

2 Q. And, what is happening to White Rock and Lakeland after  
3 the acquisition?

4 A. (Vaughan) We intend or propose to merge both systems.

5 Q. So, that was a -- I asked a vague question, I  
6 apologize. Because I realize, whether the Companies  
7 exist afterwards is their own business, whether they  
8 serve is the Commission's business. So, when you say  
9 "merge", if you could just please explain that?

10 A. (Vaughan) Yes. When I say "merging", what I mean is  
11 that they will be -- fall under the ownership of  
12 Abenaki Water Company as two systems.

13 Q. Thank you. Mr. Naylor, if I could bounce back to you,  
14 with regard to the Settlement Agreement. Did you  
15 participate in that document?

16 A. (Naylor) Yes, I did.

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

18 A. (Naylor) Yes, I am.

19 Q. And, do you have any changes or corrections that you  
20 propose to that document?

21 A. (Naylor) No, I do not.

22 Q. Okay. I'd like to draw your attention, Mr. Naylor, to  
23 Page 4, and Paragraph B, as in "boy, "Authority to  
24 Operate". And, there's a statement: "The Settling



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Parties agree that Abenaki has demonstrated that it has  
2 the requisite managerial, technical, and financial  
3 expertise to provide service to White Rock and Lakeland  
4 customers." Do you see that section?

5 A. (Naylor) Yes, I do.

6 Q. Did Staff conduct discovery on that issue?

7 A. (Naylor) Yes.

8 Q. And, does Staff have an opinion on Abenaki's  
9 managerial, technical, financial capabilities?

10 A. (Naylor) As indicated in the Settlement, as one of the  
11 Settling Parties, Staff does believe that the Company,  
12 Abenaki, has the requisite managerial, technical, and  
13 financial capabilities to provide service. This -- our  
14 opinion on that is based primarily on the filing that  
15 the Joint Petitioners made here, and the demonstrations  
16 that they have provided us with respect to their plans  
17 for operating the systems, as well as supporting them,  
18 in terms of customer billing and other issues related  
19 to that. So, we feel that they have put together a  
20 good plan for transitioning to a new ownership. And, I  
21 believe they have demonstrated that they have the  
22 capabilities to operate the utilities effectively.

23 Q. Uh-huh. Mr. Vaughan, just a couple questions about the  
24 ability to do business in this state. Abenaki has

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 filed with the Secretary of State's Office to do  
2 business in the state, is this correct?

3 A. (Vaughan) That is correct.

4 Q. And, is that -- with respect to New England Service  
5 Company, will it be providing any regulated utility  
6 service in New Hampshire?

7 A. (Vaughan) It will not.

8 Q. What else does New England Service Company do?

9 A. (Vaughan) New England Service Company does primarily  
10 unregulated business. As an example, New England  
11 Service Company manages probably around a dozen systems  
12 in Connecticut. It provides billing services to half a  
13 dozen condominium developments. It does fundamental  
14 and core waterworks operations, such as backflow  
15 preventer testing and repair, it does some plumbing  
16 operations. It will also continue to do that when it  
17 -- when it actually assumes the ownership of C&C.

18 Q. Mr. Vaughan, I believe, or, maybe I didn't, in your  
19 direct, did you cover how affiliate contracts will be  
20 used by New England and Abenaki in your direct?

21 A. (Vaughan) I did not, I don't believe.

22 Q. If you could please explain on the record, there are  
23 existing affiliate contracts, are you aware of that?

24 A. (Vaughan) Yes.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Q. And, can you explain how those contracts either change  
2 or stay the same?

3 A. (Vaughan) Existing now are contracts between C&C and  
4 Lakeland Water Company -- Lakeland Management Company  
5 and White Rock Water Company, so that, when New England  
6 Service Company acquires C&C, it will then provide  
7 those services from New England Service Company to  
8 Lakeland Management Company and White Rock Water  
9 Company. And, in doing so, we need to establish  
10 affiliate contracts between New England Service Company  
11 and those two systems.

12 Q. And, are you aware that affiliate agreements need to be  
13 filed with the Commission?

14 A. (Vaughan) Yes.

15 Q. Mr. Naylor, with respect to the Settlement Agreement,  
16 Paragraph E, there's a section about sewer tariffs.  
17 Can you please explain what Staff's looking for in this  
18 agreement?

19 A. (Naylor) Yes. The existing sewer tariff on file for  
20 Lakeland Management Company simply consists of the  
21 associated rate pages, and does not have anything  
22 comprehensive, in terms of terms of service. Keep in  
23 mind that Lakeland provides both water and sewer  
24 service, it does have a more comprehensive water

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 tariff, but does not have anything similar for the  
2 sewer side of the business. And, we felt that, since  
3 the tariffs would need to be refiled under the name of  
4 the new company, that it would be a good time for the  
5 sewer service to have a little bit more comprehensive  
6 set of terms and conditions on file.

7 Q. Thank you, Mr. Naylor. Mr. Vaughan, you mentioned that  
8 Abenaki will be part of a larger corporate entity, New  
9 England Service Company. Can you please summarize what  
10 the benefits and efficiencies White Rock and Lakeland  
11 customers will see from this acquisition?

12 A. (Vaughan) Yes. I can certainly start, and I know Ms.  
13 Carson -- Mrs. Carson can also add to this. But some  
14 of the benefits and efficiencies, first of all, will be  
15 our ability to access capital. And, I know that's  
16 commonly used, but it's going to happen, if the  
17 Commission approves this acquisition. And, the benefit  
18 there is that we can get capital at very low rates, and  
19 introduce debt as part of the capital structure. I  
20 don't want to get ahead of myself here, in terms of the  
21 questioning. But we'll be able to do single regulatory  
22 filings, tax reporting. There's some synergies with  
23 some of our personnel in supplementing existing  
24 ownership's role. And, when I say that, I mean Alex

[WITNESS PANEL: Vaughan~Carson~Naylor]

1           Crawshaw's role. We'll have benefits like online  
2           payment, credit card payments. Actually, we are  
3           introducing also paperless billing in Massachusetts and  
4           in Connecticut, and we need to explore that with  
5           Commission approval here. But those would be some of  
6           the -- some of the benefits and some of the  
7           enhancements. Plus, the technical expertise that we'll  
8           have with a capital construction plan laid out. We  
9           have plans on that. And, so, I think that the  
10          customers will benefit by and large from those things  
11          that we can bring to the table.

12   Q.    Ms. Carson, do you have anything to add to that? The  
13          question was a listing of efficiencies and benefits to  
14          customers, and Mr. Vaughan did a very lengthy list.

15   A.    (Carson) Yes. I think just the administrative  
16          efficiencies, running similarly sized utilities, of  
17          just being able to handle the billing and the, you  
18          know, payables and cash receipts, and customer service,  
19          as far as, you know, being available. I know, right  
20          now, when customers call, it may be difficult to get  
21          ahold of somebody who could tell them exactly what  
22          their balance is at that moment, you know. But we  
23          would be able to do that. We always have somebody  
24          available from 8:00 to 4:30 Monday through Friday, as

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 well as an answering service, to call whoever is on  
2 call, if there was an emergency, or to take a message  
3 that could be responded to the next day.

4 Q. Thank you. Mr. Vaughan, earlier in your testimony you  
5 talked about, in your due diligence, that you looked at  
6 the DES website. Do you know if White Rock and  
7 Lakeland are in compliance with DES regulations?

8 A. (Vaughan) I do know. And, they are.

9 Q. And, do you know whether White Rock and Lakeland are in  
10 compliance with federal regulations?

11 A. (Vaughan) I believe they are.

12 Q. Mr. Vaughan, can you please explain how White Rock and  
13 Lakeland will have access to certified operators?

14 A. (Vaughan) Yes. They will have available to them their  
15 current operator, plus we have a -- we have one or two  
16 people now that have significant experience with  
17 Massachusetts and Connecticut licensing who will be  
18 getting a New Hampshire licensing. We don't anticipate  
19 the need for them, but I think that everybody that runs  
20 either Lakeland or White Rock will be properly licensed  
21 and have the requisite experience that they need.

22 Q. In the Petition, on Page 8, Paragraph 18, there was a  
23 mention of a "Travis Helming", and Staff followed up on  
24 this individual in discovery. Can you please explain,

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 is he a certified operator and how he can help New  
2 Hampshire?

3 A. (Vaughan) Travis is a certified operator in  
4 Massachusetts and Connecticut. He will be gaining his  
5 New Hampshire licensing in the near term. He will be  
6 able to help anyone that's operating either White Rock  
7 or Lakeland, by virtue of his experience. And, I, in  
8 addition, will be able to provide some of that  
9 information. He has done contract ops before. And, in  
10 fact, this would be a very similar operation as it is  
11 now. C&C has the affiliate agreement between White  
12 Rock and Lakeland. And, so, both parties are very  
13 intimate, when I say "both parties", I mean Alex, and I  
14 refer to him as the "current ownership" or "current  
15 operator", and Travis. And, also, there's a couple of  
16 other personnel we have in New England that are  
17 well-versed in contract ops.

18 Q. Earlier you mentioned a "capital improvement plan", and  
19 I notice in the very last page of your testimony, the  
20 attachment, there is a projected capital program. And,  
21 I had a few questions for that. Do you have that --

22 A. (Vaughan) I do.

23 Q. -- that chart in front of you?

24 A. (Vaughan) I do.

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 CHAIRMAN IGNATIUS: Ms. Brown, where did  
2 you find that again?

3 MS. BROWN: Exhibit 2, very last page.  
4 And, this is the testimony attachment of Don Vaughan.

5 CHAIRMAN IGNATIUS: Thank you.

6 BY MS. BROWN:

7 Q. Mr. Vaughan, there's a capital improvements budget of  
8 16,000 for 2013. Given that the approval is now in  
9 December 2013, can you please explain whether that is  
10 continuing, whether it's going to go over to 2014, or  
11 how is this going to change, if any, the capital  
12 budget, if it's going to change, if any?

13 A. (Vaughan) We were very optimistic in targeting capital  
14 funds for 2013. For various reasons, in process,  
15 things get delayed, and I think everybody is familiar  
16 with that. But, in any event, what we typically do is  
17 we project out five years. I did not -- we did not do  
18 that in this case, because we wanted to get more  
19 intimate with the performance and the behavior of the  
20 system. So that capital projects in 2013 will move  
21 over to 2014. Those numbers may be adjusted. But,  
22 certainly, those items that are itemized there are  
23 typical ongoing needs the systems have, perhaps with  
24 the exception of Item Number 5, which is the "ground

{DW 13-236} {12-02-13}



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 water exploration". And, we feel like there's a  
2 definite need for that. That has been mentioned with  
3 the Village, as a matter of fact. But, after we  
4 develop the intimacy with the systems, then we will be  
5 projecting five-year capital budgets in certain  
6 programs. If that answers your question?

7 Q. Yes. But I may have a follow-up. Where will the funds  
8 to fund the capital improvement program be coming from?

9 A. (Vaughan) The funds will be coming largely from  
10 depreciation, a significant amount from earnings,  
11 possibly a line of credit that we will establish.  
12 There may be some working capital that we can utilize.  
13 But we think that that number in 2014, \$50,000, is  
14 fairly conservative. We might try to get a little bit  
15 more aggressive with it, but all the time we want to be  
16 sensitive to rate impact. In other words, we don't  
17 want to just make huge capital improvements, which  
18 would cause a rate application and a rate increase  
19 sooner than we would like.

20 Q. What is your customary rate relief schedule in  
21 Connecticut? Do you come in every three years or five  
22 years for rate increases?

23 A. (Vaughan) We typically average around three to three  
24 and a half years, four years. But it depends on so

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 many circumstances, falling interest rates as an  
2 example. We've had the benefit of refinancing some  
3 debt in Connecticut, efficiencies. Our debt in  
4 Connecticut has allowed us to -- the refinancing of the  
5 debt in Connecticut has allowed us to extend the need  
6 for a rate increase out it's probably about 18 months  
7 now, and I think we can even push that out further.  
8 So, we monitor the returns, the results and so forth.  
9 And, it's also important to us to make sure that the  
10 Company is healthy. That it's viable. So that it can  
11 afford the capital improvements that the system needs,  
12 so that, you know, we have a happy customer base, and  
13 ownership is happy.

14 Q. A specific question about the meter installations. I  
15 think you said 10 percent, in the "Comments" section it  
16 mentions "approximately 10 percent each year" of the  
17 systems being replaced. Is this based on customary or  
18 did you actually look at how old the meters were in the  
19 systems?

20 A. (Vaughan) We did. We would like to introduce some  
21 technology in this next round of 10 percent meters  
22 using radio transmission technology. But, typically,  
23 water systems replace 10 percent of their meters on an  
24 annual basis. Some are 8 percent, some are 10, some

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 are even more. But, typically, it's around 10 percent.

2 Q. Are you familiar with the National Association of Water  
3 Companies?

4 A. (Vaughan) Yes.

5 Q. And, do they provide a sounding board or a resource for  
6 small companies operating their systems?

7 A. (Vaughan) Yes, they do.

8 Q. Do you have any concerns about being a smaller utility  
9 or whether you consider -- well, actually, let me just  
10 start that sequence of questions again. Do you  
11 consider yourself a small water utility or a large  
12 water utility?

13 A. (Vaughan) I'm going to go in the middle. I think we're  
14 middle-sized. We're not a large utility, you know,  
15 with respect to companies like Aquarion, or even  
16 Pennichuck. But we're, you know, we're getting close  
17 to Pennichuck. We know how to run small systems.  
18 We're nimble. We're not bureaucratic. We always look  
19 for that. We want a lot of accountability. And, so, I  
20 think that, you know, getting small companies,  
21 acquiring them, is helpful in our I'm going to use the  
22 word "portfolio". I think we can do a good job there.  
23 And, I think there are opportunities, not only for  
24 customers, but for also owners and managers.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Q. I think you were hinting at some of the issues I wanted  
2 to pursue with you. But is it common knowledge in the  
3 trade group, like NAWC, that small water utilities face  
4 challenges that the larger utilities do not face? Are  
5 you familiar with that?

6 A. (Vaughan) For certain. They are subject to, you know,  
7 tremendous variations in the income statement, as an  
8 example. A main break can be enormously significant to  
9 a small water company, whereas, in a larger company,  
10 you know, it's just a blip in the road. The issues  
11 related to capital expenditures and certain O&M  
12 expenses can be significant, in that they start to  
13 drive rates upward. They put pressure on rates. And,  
14 that's one of the challenges of running small  
15 companies. Typically, they can't afford to have a  
16 full-time person, and that's where we come in. So,  
17 there's some synergies here between White Rock and  
18 Lakeland, and who knows, other opportunities that we  
19 may be able to pursue. So, I think that the economies  
20 of scale will benefit not only the customers, but the  
21 operators also.

22 Q. Thank you for that description. Mr. Naylor, a question  
23 for you about access to capital. What is your opinion  
24 on Abenaki's access to capital?

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Naylor) Well, I think it's very encouraging that the  
2 Company has come in, in its Petition to acquire these  
3 two utilities, with a request for a financing approval  
4 as well, and as detailed in the Petition and in the  
5 testimony, has some financing arranged, a \$300,000  
6 loan. The goal for the Company, as it has indicated to  
7 us, is to establish a balanced capital structure with  
8 the two utilities at about 50/50 debt and equity. So,  
9 I think -- I think that alone demonstrates that these  
10 utilities, under new ownership, will be off to a good  
11 start financially. And, that's certainly encouraging  
12 to us. As we've dealt with a number of small utilities  
13 in recent years that do not have those advantages, in  
14 terms of access to capital, and the ability to  
15 appropriately manage their capital structure. So,  
16 certainly, a very -- a very positive sign.

17 Q. You mentioned "balanced capital structure", is that  
18 something that Staff looks for in a company?

19 A. (Naylor) Yes, it is.

20 Q. And, what are the benefits of a balanced capital  
21 structure?

22 A. (Naylor) Well, it's a balancing of the risk and cost.  
23 Certainly, utilities that, you know, are much more  
24 highly leveraged would have a -- tend to have a lower

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 overall cost of capital, but tend to be more risky.  
2 Utilities that have a higher percentage of equity in  
3 their capital structure may be less risky, but reflect  
4 a higher overall cost of capital. So, somewhere around  
5 a 50/50 capital structure is generally ideal. It  
6 balances risk and cost.

7 Q. Can you earn a return on debt?

8 A. (Naylor) Yes. Debt is part of the overall weighted  
9 average cost of capital and is applied to the rate  
10 base. Of course, that return, a portion of the return  
11 is what is sent to your lender, whether it's a bank or  
12 a bondholder or whoever.

13 Q. Now, did you have any concern about how debt and equity  
14 of Abenaki is allocated to White Rock and Lakeland?

15 A. (Naylor) No. We inquired, during our discovery with  
16 the Company, in terms of what they intended with  
17 respect to the structure of the capital structure for  
18 each of the utilities. And, what they have indicated  
19 is that they would like to maintain one capital  
20 structure for both utilities. Keep in mind that, with  
21 their proposal, the two utilities will be essentially  
22 within the same corporation, which is Abenaki. So,  
23 they will essentially have one set of financial  
24 statements. But, certainly, for regulatory purposes,

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 and for measuring their earnings from year to year,  
2 they will be able to produce separate income  
3 statements, which, of course, is critical to measuring  
4 their earnings and the appropriateness of their rates  
5 on a going forward basis.

6 Q. Are you aware that Abenaki has asked for a security  
7 interest with respect to the CoBank loan?

8 A. (Naylor) Yes, I am.

9 Q. And, do you have an opinion as to whether that security  
10 interest is in the public good?

11 A. (Naylor) It is in the public good. It's quite typical,  
12 and we support it.

13 Q. Now, you're familiar that the Commission, in approving  
14 a financing request, needs to look at the use of the  
15 proceeds of those funds?

16 A. (Naylor) Yes.

17 Q. And, did you inquire of the use of the proceeds of the  
18 funds in your discovery?

19 A. (Naylor) Yes.

20 Q. And, do you have an opinion on whether the use of the  
21 funds -- use of the proceeds of the funds of the  
22 financing are in the public good?

23 A. (Naylor) Yes. I believe it's in the public good. As  
24 detailed quite extensively in the testimony and in the

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Joint Petition, the financing that's being sought is to  
2 -- is to be used to create a balanced capital structure  
3 as part of the acquisition, and we believe it's  
4 appropriate.

5 Q. Ms. Carson, I wanted to turn to you about billing  
6 questions. And, we've marked for identification  
7 Exhibit 4, a response that you gave to Staff 1-3, and I  
8 believe you have a copy of it before you. Can you  
9 please explain how customers in White Rock and Lakeland  
10 will know that a utility has acquired them? Is there  
11 going to be a billing notice, for instance?

12 A. (Carson) They did receive -- we did do a mailing of the  
13 notice to each customer that this transaction was in  
14 process, so that they could, you know, intervene, if  
15 they wanted to. So, they have received that notice.  
16 And, then, also, what we have done in the past, for  
17 example, with Colonial Water, is we included a letter,  
18 it could be separate or it could be with the first  
19 billing in January, that would explain who we are and,  
20 you know, any changes that they might see on their  
21 bill, and, you know, what will change and what will  
22 stay the same.

23 Q. Uh-huh. With respect to your response to Staff 1-3,  
24 you included a sample Abenaki Water Company bill. Is



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 that the likely format that customers will see from  
2 Lakeland -- that the White Rock and Lakeland customers  
3 will see from Abenaki?

4 A. (Carson) Yes. It would be something very close to  
5 this. This was taken from a template, basically, that  
6 we use. And, you can see that there's also a bill  
7 message in there. We use that every month as a way to  
8 give any news or, you know, any tips, as you see here,  
9 as far as cold weather, and that might be another place  
10 where we would put more information about our company,  
11 online bill payment, so forth.

12 Q. Will there be a toll-free number for customers to call?

13 A. (Carson) Yes.

14 Q. And, looking back, the Lakeland and White Rock bills  
15 have a space for "Make your check payable", there's the  
16 address and the phone number. How will that  
17 information change when Abenaki takes over?

18 A. (Carson) You can see that we'll have a -- we have a  
19 spot where it says "make your checks payable", and we  
20 have the Connecticut address.

21 Q. Uh-huh.

22 A. (Carson) And, then, they will also have a return  
23 envelope included with their bill with our address.

24 Q. And, will the phone number be at the bottom, as in this

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Abenaki sample?

2 A. (Carson) Yes.

3 Q. Mr. Vaughan had earlier made reference to an office  
4 that he toured during the due diligence. Is that a  
5 billing office?

6 A. (Carson) No.

7 Q. And, so, will there be a physical billing presence in  
8 White Rock or Lakeland?

9 A. (Carson) There hasn't been. There will just be  
10 consistent -- it will be consistent with what they have  
11 now, which is it's basically used as a field office,  
12 inventory, so -- because the two systems are actually  
13 about an hour apart, so the customers haven't been able  
14 to have an actual billing office. But there will be  
15 the -- we would definitely direct them towards the  
16 website, which will be another method of payment.

17 Q. And, payment through the Web will be a new option for  
18 customers?

19 A. (Carson) Yes.

20 Q. And, I believe, is it accurate, that White Rock -- the  
21 existing rate schedules for White Rock and Lakeland  
22 will stay the same, is that correct?

23 A. (Carson) Yes.

24 Q. And, does the Company have -- does Abenaki have any

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 plans for consolidating rates?

2 A. (Carson) It's something that we would consider in the  
3 future. It would definitely -- we would have to really  
4 investigate the impact.

5 Q. Do you have any consolidated rates post-acquisition as  
6 examples in any of your Massachusetts and  
7 Connecticut --

8 A. (Carson) No.

9 Q. Okay. Will the billing frequency change under Abenaki  
10 from what customers see now with White Rock and  
11 Lakeland?

12 A. (Carson) It would remain consistent. But, also, going  
13 forward, perhaps in the next rate case, we would seek  
14 approval for a monthly billing.

15 Q. So, going forward, the Abenaki -- Abenaki will just  
16 issue bills in one lump, rather than having them  
17 staggered, for White Rock and Lakeland?

18 A. (Carson) Right now, they're both billed quarterly, I  
19 believe around the same time.

20 Q. Sorry, my question was -- it could have been worded  
21 better. I'm familiar with some utilities they will  
22 send out bills, quarterly bills, in batches.

23 A. (Carson) Okay.

24 Q. This is a small -- these are small systems. So, I

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 assume that Abenaki will continue sending them out in  
2 one batch, rather than trickling them over a period of  
3 weeks, as a quarterly bill?

4 A. (Carson) No. Just one batch.

5 Q. Thank you. Ms. Carson, do you know, in the Settlement  
6 Agreement, Paragraph E, it talks about an agreement  
7 with Laconia? Are you familiar with that issue?

8 A. (Carson) Yes. I'm familiar.

9 Q. Okay. Can you please explain how the sewer billing  
10 works with the existing company and -- or, with  
11 Lakeland and the City of Laconia?

12 A. (Carson) Yes. Currently, it's a verbal agreement.  
13 Where, after the customers, in Laconia, they actually  
14 read their own meters and send in cards. And, I  
15 believe, though, the process is to read some of the  
16 bigger users, to verify those. And, then, when they  
17 get the total consumption, they take their rates from  
18 Laconia and, as far as sewer, and actually create their  
19 own bill and send it along with their payment to the  
20 City.

21 Q. Lakeland does not treat sewer, is that correct?

22 A. (Carson) Correct.

23 Q. It's the City of Laconia that treats the sewer?

24 A. (Carson) Yes.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 MS. BROWN: If I can have a moment to  
2 caucus with the Homeowners Association?

3 CHAIRMAN IGNATIUS: That's fine. Take  
4 your time.

5 MS. BROWN: Chairman Ignatius, Staff has  
6 completed its cross and direct. I don't know if you want  
7 us to finish our redirect -- our respective redirects  
8 before your questioning, or just do additional redirects  
9 as customary after the Commission's questions?

10 CHAIRMAN IGNATIUS: Thank you. Why  
11 don't we go ahead with Commissioner questions, and then,  
12 if there's any redirect needed, we'll take that up.  
13 Commissioner Harrington.

14 CMSR. HARRINGTON: Yes. I guess I'll  
15 ask, and who's ever the appropriate person to answer  
16 please.

17 BY CMSR. HARRINGTON:

18 Q. Referring to Exhibit 2, which is entitled the  
19 "Testimony of Mr. Vaughan". If you go to Page 61, it  
20 has this copy of this attachment to the easement, where  
21 it spells out the "155 percent of the annual property  
22 taxes assessed on a parcel of land", and so forth and  
23 so on. And, yet, you stated, this is dated  
24 "August 9th, 2013". But I believe, Mr. Vaughan, you

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 said that "no one knew about this until a week or ten  
2 days ago" in your testimony, and you didn't know what  
3 was there?

4 A. (Vaughan) I did know what was there, I'm familiar with  
5 that agreement. But, in my due diligence with existing  
6 ownership, I asked what the status was, and the  
7 response that I had or what I received was that they  
8 had never billed the Company. And, I wasn't sure about  
9 the, you know, even the validity of the agreement,  
10 whether it had been extinguished, or what it was, but I  
11 was satisfied with the response that I had at that time  
12 from ownership.

13 Q. So, the present ownership basically said "it exists on  
14 a piece of paper, but, in practice, no one's been  
15 following it"?

16 A. (Vaughan) Yes.

17 Q. Okay. And, it's kind of hard to figure reading that,  
18 but it seems to give an easement to a lot of land, of  
19 various parcels, I guess, to the existing company.  
20 And, now, there's a question of how the payments were  
21 or were not made. But is there also a question of  
22 whether the existing easement is needed by the  
23 purchasing company?

24 A. (Vaughan) There is a question. And, we believe, in

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 discussions with the existing ownership, that we would  
2 like to terminate that agreement, if it were possible,  
3 because we may not -- we don't think that there's water  
4 available there that is economically available to us.

5 Q. So, in the properties described in the easement, there  
6 is presently no -- of the Company's plant there?

7 A. (Vaughan) Would you repeat that question please.

8 Q. The easement described some property. Is there any  
9 Company -- present Company property on that property?  
10 Do they have any plant there at all?

11 A. (Vaughan) Not to my knowledge.

12 Q. Okay. So, if it was needed, it would be for some type  
13 of future expansion?

14 A. (Vaughan) Yes.

15 Q. All right. Thank you. A couple of other questions.  
16 On the treatment of sewage, just so I understand it  
17 correctly now, there's a verbal agreement between the  
18 existing company and the City of Laconia for the sewage  
19 to go to them?

20 A. (Vaughan) Yes.

21 Q. And, how does it get there? Is it piped directly there  
22 or is it sent to a central facility and trucked or  
23 what?

24 A. (Vaughan) It's piped.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Q. And, --

2 A. (Vaughan) It's a collection system.

3 Q. Okay. It just seems kind of odd that there's never  
4 been a written agreement on this.

5 A. (Vaughan) It does seem odd.

6 Q. So, I mean, theoretically, they could just say tomorrow  
7 "stop sending it"?

8 A. (Vaughan) That question was considered. I don't think  
9 that would or could happen. I think there's a pretty  
10 good relationship with the City of Laconia and Lakeland  
11 Management Company and the ownership, there's good  
12 discussion going back and forth. I think it's just an  
13 informal agreement that just remained that as a detail  
14 to be done at a later date, and it has never been done.

15 Q. And, in the Settlement Agreement, Exhibit -- what are  
16 we calling this? Exhibit 1 or 3?

17 CHAIRMAN IGNATIUS: The Settlement is 3.

18 BY CMSR. HARRINGTON:

19 Q. Exhibit 3. It implies that you're going to enter into  
20 discussions. Have you made any preliminary discussions  
21 with the City of Laconia or an attempt to there to  
22 formalize the agreement?

23 A. (Vaughan) We've made inquiries. We need a return phone  
24 call. They're difficult to pin down, but we will pin

{DW 13-236} {12-02-13}



[WITNESS PANEL: Vaughan~Carson~Naylor]

1           them down.

2   Q.    But, as of right now, there's nothing that makes you  
3           believe that the agreement not only won't -- will not  
4           be able to continue as it is, but could be formalized  
5           in writing as well?

6   A.    (Vaughan) I do believe that.

7   Q.    Okay. Okay. The e-mail that we received from Amy  
8           Hooper raises four questions, but we never really got  
9           any answers to the questions. Could somebody address  
10          those please?

11                   MS. BROWN: I don't believe they have a  
12           copy of Amy Hooper. I don't know what document you're  
13           referring to, Commissioner Harrington.

14                   CMSR. HARRINGTON: Okay. This is an  
15           e-mail. It's from Amy Hooper to Eileen Hadley. And, it  
16           says "Dear Public Utilities Commissioner", and there's a  
17           series of questions on it.

18                   MS. BROWN: Okay. Thank you.

19                   CMSR. HARRINGTON: And, in the  
20           Settlement Agreement, I believe it says that those -- "The  
21           Association did not formally intervene, but White Rock and  
22           Abenaki provided written responses to the issues raised by  
23           the Association." So, I guess I'm just wondering what the  
24           written responses were, since we don't have copies of

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 those.

2 MS. BROWN: I just gave Mr. Vaughan a  
3 copy of that e-mail. I know that -- I'll just leave it  
4 there.

5 WITNESS VAUGHAN: I have a copy of the  
6 e-mail. I received the e-mail. And, we did respond, I  
7 know we responded to all four queries. I'm just trying to  
8 think of the route that they took. I believe our counsel  
9 responded, if I'm not mistaken.

10 (Atty. Brown conferring with Atty.  
11 Holahan.)

12 MS. HOLAHAN: The responses to these  
13 questions were provided by Attorney Jordan, on behalf of  
14 White Rock, not from Abenaki. Abenaki did chime in on a  
15 couple of these answers, but I'm not sure that Mr. Vaughan  
16 is the appropriate witness to answer all of them. I do  
17 have a copy of the responses that were provided by Mr.  
18 Jordan, if I may show those to Mr. Vaughan?

19 CHAIRMAN IGNATIUS: That would be fine.  
20 Thank you.

21 CMSR. HARRINGTON: Excuse me. You had  
22 said that the responses were provided by White Rock?

23 MS. HOLAHAN: Yes.

24 CMSR. HARRINGTON: Okay. Because, in

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 the Settlement Agreement, it says they were "provided  
2 jointly by White Rock and Abenaki."

3 MS. HOLAHAN: That, technically, the  
4 responses were provided by Attorney Jordan, from White  
5 Rock, since they were directed to White Rock. There were  
6 three answers, 2, 3, and 4, on which Abenaki did  
7 participate in the response.

8 CMSR. HARRINGTON: Okay. Thank you.

9 (Atty. Holahan handing document to  
10 Witness Vaughan.)

11 CHAIRMAN IGNATIUS: And, I think it may  
12 be that, Mr. Vaughan, you're not able to fully answer the  
13 questions. But, maybe, to the extent that you can  
14 describe the responses, or if you have written copies, Ms.  
15 Holahan or Mr. Jordan, that you would rather put into the  
16 record, we could do it that way. And, if need be, we can  
17 have, whether an offer of proof from Mr. Jordan, or  
18 however to get the answers out in the record, whether it's  
19 in the written form or testifying or representing it this  
20 morning. I don't think we care about the formality, so  
21 much as the information.

22 MS. HOLAHAN: We're happy to put them in  
23 the record, if the Commissioners would like to have them  
24 in the record. But, if it's helpful -- more helpful for

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 you to have the responses orally now, that's fine, too. I  
2 just want to make sure you have the answers that were  
3 provided, not just the questions?

4 WITNESS VAUGHAN: I do.

5 MS. HOLAHAN: Okay.

6 CHAIRMAN IGNATIUS: Why don't we then  
7 see how much, Mr. Vaughan, you're able to testify about  
8 the details here. And, if there's any remaining questions  
9 that you don't know, that's understandable. That's not a  
10 problem. We'll just find the right way to get the  
11 information.

12 WITNESS VAUGHAN: I have four questions  
13 here that came in from the Village. And, the first one  
14 had to do with the easement. If you'd like me to read the  
15 request, and then the response, I can do that, read  
16 directly?

17 CHAIRMAN IGNATIUS: Yes. There might be  
18 -- the question, at least the setup to the question is  
19 pretty long. Is there a way to just sort of summarize it  
20 quickly? We have a copy of the actual questions.

21 BY CMSR. HARRINGTON:

22 Q. Maybe you could just start with, under 1, where it says  
23 "a. Our request is that".

24 A. (Vaughan) Right. There was a -- Number 1, there was a

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 question regarding the easement and taxes. And,  
2 essentially, our response was "the capital improvement  
3 plan which was included as an exhibit in the Asset  
4 Purchase Agreement contained" -- beg your pardon. I  
5 beg your pardon. That was -- that's Number 2. The  
6 response to Number 1 was "Our request is that White  
7 Rock Water Company pay the Association for the years  
8 2009, '10, '11 and '12 as we are unable to supply  
9 records for the years 2002 through 2008." The second  
10 question had to do with the --

11 CHAIRMAN IGNATIUS: Before you -- go  
12 ahead.

13 BY CMSR. HARRINGTON:

14 Q. Could you answer the first question, one at a time, so,  
15 we can try to -- you read the first question, you  
16 didn't give us -- provide the answer. Do you have the  
17 question?

18 A. (Vaughan) Okay. The response here. Beg your pardon.  
19 Okay. The response is "White Rock Water Company is in  
20 the process of following up on the issues raised by the  
21 Association in this item, and will contact the  
22 Association directly to discuss resolution."

23 Q. And, with regards to that, is this, from Abenaki's  
24 point of view, or whatever the correct company is that

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1           you represent, does this issue have to be resolved  
2           prior to the closing?

3   A.    (Vaughan) I would like it to be resolved before the  
4           closing.

5   Q.    That's not exactly what I asked, though.  Would it have  
6           to be?

7   A.    (Vaughan) I don't think it has to be.

8                   MS. HOLAHAN:  Excuse me.  May we just  
9           have a minute to confer?

10                   CHAIRMAN IGNATIUS:  Certainly.

11                   MS. HOLAHAN:  Thank you.

12                   CHAIRMAN IGNATIUS:  In fact, why don't  
13           we take a brief break, give a break to the court reporter  
14           as well, so you can confer.

15                   MS. HOLAHAN:  Great.

16                   CHAIRMAN IGNATIUS:  And, I know these  
17           are issues that are still sort of being developed.  And,  
18           so, it's understandable that not everything is known to  
19           every person right now.  So, let's take a break for ten  
20           minutes and resume at 11:40.  Thank you.

21                           (Whereupon a recess was taken at 11:30  
22                           a.m. and the hearing resumed at 11:44  
23                           a.m.)

24                   CHAIRMAN IGNATIUS:  Ms. Holahan, did you

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 have more questions about the -- I forgot what we were  
2 talking about, the --

3 CMSR. HARRINGTON: The four questions.

4 CHAIRMAN IGNATIUS: Yes, the four  
5 questions. The questions that came from Ms. Hooper?

6 MS. HOLAHAN: Do I have more questions?

7 CHAIRMAN IGNATIUS: Yes.

8 MS. HOLAHAN: No. I was going to offer,  
9 I have a couple of copies. And, if it would be helpful to  
10 the Commissioners, I'll ask that it be marked for  
11 identification as an additional exhibit.

12 CHAIRMAN IGNATIUS: You have copies of  
13 what?

14 MS. HOLAHAN: The questions and the  
15 responses that were provided, and that maybe we can move  
16 forward, if you think that would be easier?

17 CHAIRMAN IGNATIUS: Sure. I think that  
18 would be a good idea.

19 MS. HOLAHAN: Okay.

20 CHAIRMAN IGNATIUS: Thank you.

21 MS. HOLAHAN: Then, I would ask that the  
22 responses to the Homeowners Association's Questions 1  
23 through 4, that were provided by Attorney Jordan, be  
24 marked for identification as "Exhibit 5".

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 CHAIRMAN IGNATIUS: Is there any  
2 objection to that?

3 MR. JORDAN: None.

4 MS. BROWN: No.

5 CHAIRMAN IGNATIUS: All right. Then,  
6 that would be great. Thank you. And, do you have copies  
7 for us?

8 MS. HOLAHAN: I have a couple copies.

9 CHAIRMAN IGNATIUS: We can make a couple  
10 of extra copies.

11 MS. HOLAHAN: Okay. Thank you.

12 (The document, as described, was  
13 herewith marked as **Exhibit 5** for  
14 identification.)

15 MS. HOLAHAN: I did have one further  
16 question just to clarify or ask Mr. Vaughan.

17 BY MS. HOLAHAN:

18 Q. Do you think that resolution of the easement issue  
19 needs to be done before the sale can be consummated?

20 A. (Vaughan) I believe it does.

21 Q. By which parties do you think it needs to be resolved?

22 A. (Vaughan) I believe it needs to be done between Abenaki  
23 and current ownership.

24 Q. That would be current ownership of White Rock, correct?



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Vaughan) Correct.

2 Q. Okay. So that, provided that you two reach an  
3 agreement as to how this situation is resolved, that is  
4 the only piece that needs to be resolved prior to  
5 closing?

6 A. (Vaughan) That's correct.

7 MS. HOLAHAN: Okay. Thank you.

8 CHAIRMAN IGNATIUS: Commissioner  
9 Harrington, more on this issue?

10 CMSR. HARRINGTON: Yes. Okay. So, that  
11 helps. That does have some action that has to be taken  
12 prior to closing.

13 BY CMSR. HARRINGTON:

14 Q. Since we now have the answers to these, I don't want to  
15 dwell on all of the questions. There was one question,  
16 3.a, where it talks about "water storage capabilities".  
17 And, then, in Exhibit 2, on Mr. Vaughan's testimony, on  
18 the very last page, there was some discussion of  
19 "conduct ground water exploration, investigate, and  
20 report", and with a comment that "White Rock has  
21 limited supply and is vulnerable to supply deficiency  
22 and marginal service relating to system breaks." Are  
23 these one in the same issues?

24 A. (Vaughan) They're probably two unrelated -- well, they

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 are. They're dependent on each other. There is a --  
2 there's a supply that is somewhat less than optimal.  
3 And, I'm putting that, I guess, in fairly positive  
4 terms. You know, they could stand a lot more water  
5 than what they have. The second is, the breaks that  
6 occur become more significant because of the lack of  
7 supply. So, they are related.

8 Q. But that's the \$5,000 that's listed in the question --  
9 response to the question, that's the same \$5,000 that's  
10 listed on the last page of your testimony as conducting  
11 this groundwater exploration?

12 A. (Vaughan) Yes.

13 Q. Okay. And, when would you expect that to be done? It  
14 was listed as being "2013". That would probably not  
15 happen this year?

16 A. (Vaughan) No, it would not. But it would happen,  
17 certainly, in 2014, and that would be a priority item.

18 Q. Okay. Just a couple more questions. Again, on your  
19 testimony, get the number here, yes, it's on Page 9, at  
20 the bottom of the page, it's Line 19. It says "Is NE  
21 Service seeking a change in rates for either White Rock  
22 or Lakeland in conjunction with the proposed  
23 transaction?" And, the answer is "No. [They] plan to  
24 operate the two systems for a period of time before

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 seeking any rate relief in order to have a better  
2 history of operating costs." Do you have -- when you  
3 say "a period of time", what are we looking at here?  
4 Is this a couple of months, a couple of years? Can you  
5 narrow that down a little bit please?

6 A. (Vaughan) I think it would probably be at least a year,  
7 to develop some of the operating, shall we say,  
8 idiosyncrasies of the combined companies, you know, to  
9 experience the seasonal demands that occur, and also to  
10 experience some of the problems that may be inherent  
11 with either system. As an example, of service leaks or  
12 breaks or treatment situations that we hadn't  
13 anticipated. So, once we get all that and evaluate it,  
14 and that all runs through the financials, then we'll be  
15 in a better position to predict our next rate  
16 application. But I wouldn't think it would be within  
17 the next year, in 2014.

18 Q. So, it would be towards the end of next year, at least  
19 then?

20 A. (Vaughan) Yes.

21 Q. And, just so we're clear here, there's been a number of  
22 discussion on it, and, in fact, one of the responses to  
23 the questions, the fourth question, it also shows up  
24 other places, when it talks about "will result in

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 reduced operating costs relative to what otherwise  
2 would have been." Just to make the point clear for the  
3 record, it appears what the Company is saying is they  
4 don't necessarily think that there are efficiencies  
5 that they bring from size and owning other companies  
6 will reduce rates, but it will lead to smaller  
7 increases in rates in the future?

8 A. (Vaughan) Correct. And, we think we can do that by  
9 certain savings. And, as I had mentioned before, I  
10 think our attitude would be to push out and maximize  
11 the interval between rate cases. And, we can do that,  
12 I think, by the synergies that are involved.

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

15 CHAIRMAN IGNATIUS: Commissioner Scott.

16 CMSR. SCOTT: It's morning still. Good  
17 morning. Again, I guess whoever feels best qualified to  
18 answer my questions.

19 BY CMSR. SCOTT:

20 Q. On the Settlement Agreement, in Section E, you had  
21 already discussed that it sounds like currently the  
22 sewage treatment with Laconia is by verbal agreement.  
23 I was curious, so, understanding more "formalizing", I  
24 assume that means "getting it in writing" I assume?

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Vaughan) Yes.

2 Q. And, I assume, again, Laconia is currently charging to  
3 treat Lakeland's sewer, I assume?

4 A. (Vaughan) Yes.

5 A. (Carson) Yes, it is.

6 Q. And, is your expectation there will be no change in  
7 that charge, once you bring it to their attention and  
8 have them formalize it?

9 A. (Vaughan) It's possible.

10 Q. So, it's also possible they may change that rate?

11 A. (Vaughan) They could, but I would hope they would not.  
12 We want to keep those rates, and we'll do whatever we  
13 can. We'll be as emphatic and so forth. But I think,  
14 internally, they develop their own rates, and they  
15 could be passed onto us. But we will try to our best  
16 ability to keep the rates the same.

17 Q. And, in either case, it sounds like there's a direct  
18 pipe connection between the treatment facility and the  
19 Lakeland system?

20 A. (Vaughan) Yes.

21 Q. Okay. Thank you. Also regarding sewer service, I was  
22 curious for -- I understand that the plan is to bring  
23 in the existing staff under Northeast [New England?]  
24 Service or Abenaki. Does Northeast [New England?]

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Service on its own have any experience with sewer  
2 service? It sounds like I'm hearing a lot about water,  
3 but do you have sewer also?

4 A. (Vaughan) Yes, we do. We have a warranty plan, which  
5 is, you know, a relatively new venture with water  
6 utilities. And, the warranty plan is that we oversee I  
7 think about 250 sewer services in our Connecticut  
8 operation. We maintain them when there's breaks for  
9 the homeowner. We evaluate them, and we stand by the  
10 homeowner if there's any issues. So, we have a  
11 telephone number they can call us, if there should be a  
12 problem.

13 Q. So, I'll take from that, and maybe it was implied that  
14 both were part of it, when you talked about getting  
15 another licensed operator to help out Mr. Crawshaw, I  
16 mean, I assume at some point he can take a vacation or  
17 not be around for a day or two, you'll have somebody  
18 not only to spell him for water issues, but do you have  
19 capability to help or backstop him for sewer issues  
20 also?

21 A. (Vaughan) Yes.

22 Q. Thank you. You mentioned earlier, Mr. Vaughan, that  
23 there were no -- with either White Rock or Lakeland,  
24 there were no outstanding Department of Environmental

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Service compliance issues, correct?

2 A. (Vaughan) Yes.

3 Q. Are there any outstanding environmental issues or  
4 compliance issues with any of your companies that you  
5 service?

6 A. (Vaughan) No.

7 Q. Good. And, you mentioned -- there was some discussion  
8 with Attorney Brown regarding a "10 percent plan for  
9 meters". Am I correct that all the existing customers,  
10 with Lakeland and White Rock, all have meters, is that  
11 correct?

12 A. (Vaughan) Yes.

13 Q. And, within that, I think I asked this at the  
14 prehearing conference, so, going with that, so, my  
15 understanding is there's no request for waivers for any  
16 existing Public Utilities Commission rules?

17 A. (Vaughan) Not to my knowledge.

18 CMSR. SCOTT: Okay. I think that's  
19 everything. Thank you.

20 CHAIRMAN IGNATIUS: Thank you. I have  
21 just a few more questions.

22 BY CHAIRMAN IGNATIUS:

23 Q. Mr. Naylor, you've been so quiet, we'll bring you in.

24 This is just a simple question. But, in the Joint

[WITNESS PANEL: Vaughan~Carson~Naylor]

1           Petition, White Rock was described as having "98  
2           customers", in the Settlement Agreement it has "95  
3           customers". It's not a big difference, but do you know  
4           what the correct number is?

5   A.   (Naylor) I wasn't aware there was a discrepancy. So,  
6           no, I don't.

7   Q.   Ms. Carson, do you know?

8   A.   (Carson) No. I'm not sure.

9                           CHAIRMAN IGNATIUS: All right. It would  
10          be good to confirm that, either today or in the future.

11                          MR. JORDAN: The reason why it says "95"  
12          is because "98" is incorrect. And, Ms. Crawshaw brought  
13          it to my attention that it should be "95".

14                          CHAIRMAN IGNATIUS: All right. Thank  
15          you.

16   BY CHAIRMAN IGNATIUS:

17   Q.   Also, in the Joint Petition, it says on Page 6, Item  
18          12, and I don't know if you have that with you, but I  
19          can read to you what it says, that describes board  
20          approvals having been obtained, and then it says "Any  
21          additional approvals will be provided to the Commission  
22          at a later date." Are there other approvals that you  
23          needed to obtain for this transaction and are they all  
24          satisfied?



[WITNESS PANEL: Vaughan~Carson~Naylor]

1 A. (Vaughan) I believe they are all satisfied.

2 Q. What else did you have to do?

3 A. (Vaughan) We -- let me think. We had to ensure that  
4 New England Service Company was registered in New  
5 Hampshire. And, the financing, Ms. Carson tells me.

6 Q. All right. Then, Ms. Carson, a couple questions about  
7 the current status of all of the terms going towards  
8 this transaction. You say in your testimony, at Page  
9 8, the very top of the page, that "The costs associated  
10 with the loan are not yet known." Do you now know what  
11 the costs will be?

12 A. (Carson) I know that there is a commitment fee of  
13 \$2,000. I know that the legal fees from the bank side  
14 are going to be waived. And, that there is a \$1,000,  
15 basically, purchase of the bank's equity in order to  
16 receive that patronage that I mentioned before.

17 Q. And, that's what reduces the loan terms down --

18 A. (Carson) Yes.

19 Q. -- to 2.75 or something?

20 A. (Carson) Well, in my testimony, yes. That was based on  
21 a rate of 3.45, but that's no longer today's rate.

22 Q. What is the rate now?

23 A. (Carson) The latest rate that I received was 3.75.

24 Q. And, will the actual rate be fixed at the day of the

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 closing?

2 A. (Carson) Yes.

3 Q. Are there any limits on how far it might go before you  
4 -- I mean, would you close no matter what the rate is,  
5 or do you have any kind of band that you're willing to  
6 go forward with?

7 A. (Carson) I think we're expecting something within 3.5  
8 to 3.75 range. And, we would be looking for something  
9 that's competitive. We wouldn't go with any rate.

10 Q. All right. You also described in your testimony why it  
11 made more sense not to assume the SRF loan from DES.

12 A. (Carson) Uh-huh.

13 Q. And, I want to just confirm with you, this is on Page 6  
14 of your testimony, the second half of the page. Is it  
15 correct that there will be no penalty for prepaying the  
16 SRF loan?

17 A. (Carson) That's correct.

18 Q. And, there will be no withdrawal of the -- the waiver  
19 of -- the forgiveness of 50 percent of the SRF loan?

20 A. (Carson) That's correct.

21 Q. How have you confirmed that? Where you have gotten  
22 that information?

23 A. (Carson) I spoke with a staff member at DES.

24 Q. So, once the transaction is complete, you would take

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 some of the proceeds and pay off that remaining  
2 \$39,000?

3 A. (Carson) The plan is for the current ownership to pay  
4 it off before the closing.

5 Q. All right. If the -- and I guess this is to either of  
6 you, Mr. Vaughan or Ms. Carson, if the easement issue  
7 is resolved such that you conclude you don't need the  
8 property for operations, does that change the financial  
9 terms of the transaction in any way?

10 A. (Vaughan) No.

11 Q. If there is a resolution that involves payment to the  
12 Association, does that change the financial terms of  
13 the transaction?

14 A. (Vaughan) If I could just ask you, the "resolution",  
15 the "resolution" would be generated by whom?

16 Q. Well, the request -- so, for example, the homeowners  
17 have asked for payment for a number of years, and the  
18 answer was "well, we're looking into that." So, if  
19 there's a decision that "yes, there is money owed to  
20 the Association", does that effect the going forward of  
21 the transaction?

22 A. (Vaughan) Okay. Thank you. I appreciate that. It  
23 would not change it.

24 Q. Mr. Naylor, do you have a view as to whether the

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 proposed transaction is still -- is affected in any way  
2 by the easement issue, such that your position would  
3 change, that you would no longer support the  
4 transaction?

5 A. (Naylor) No. No, I'm not concerned about it. I think  
6 the parties are sufficiently motivated to deal with  
7 that question and resolve it. I don't think it's of a  
8 magnitude that certainly would jeopardize the proposal.  
9 So, I have no great concern about it.

10 Q. Does the fact that the utility holds that easement and  
11 might in the future not hold that easement in any way  
12 affect your view of the viability of the system?

13 A. (Naylor) No. I think Mr. Vaughan testified to this a  
14 little bit earlier with respect to the value of that  
15 property. And, apparently, it has been determined, at  
16 some point in the past, that the property does not have  
17 value or does not appear to have value as a source, a  
18 future water source. So, and I think, given the  
19 indications of, either in the testimony or in the Joint  
20 Petition, that additional source is something that the  
21 Company is going to be prioritizing, they certainly  
22 would not, you know, turn away from that property if it  
23 had potential value. So, I don't think that changes  
24 the -- really changes the analysis at all.

{DW 13-236} {12-02-13}

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 CHAIRMAN IGNATIUS: I think those are my  
2 questions. Commissioner Harrington, you have another  
3 question?

4 CMSR. HARRINGTON: Yes. Just to follow  
5 up on that, because this sort of prompted me to get back  
6 to this easement issue with one last question.

7 BY CMSR. HARRINGTON:

8 Q. They are requesting four years, the Homeowners  
9 Association, four years of taxes. Can someone put that  
10 in a figure associated with that? Are we talking about  
11 \$1,000 a year? \$50,000 a year? \$200,000 a year?

12 A. (Carson) It's less than \$2,000 total.

13 CMSR. SCOTT: Total. Okay. That helps.  
14 Thank you. That was all I had.

15 CHAIRMAN IGNATIUS: Thank you. Any  
16 redirect? Ms. Holahan.

17 MS. HOLAHAN: Just a couple questions.

18 **REDIRECT EXAMINATION**

19 BY MS. HOLAHAN:

20 Q. Commissioner Harrington just clarified the first one.  
21 And, that is that, Mr. Vaughan, isn't it true that the  
22 approximate value of that payment currently is about  
23 \$500 a year?

24 A. (Vaughan) Yes.

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 Q. Second of all, I heard a couple of people have called  
2 this a "tax payment". Isn't it true that this is not a  
3 tax payment, it is a agreed upon amount based on a tax  
4 assessment?

5 A. (Vaughan) Correct.

6 Q. Thank you. Ms. Brown -- Attorney Brown asked you a  
7 couple questions about assets and liabilities that  
8 Abenaki would take from White Rock and Lakeland going  
9 forward. I'd ask you to look at pages 14 and 16 of  
10 Exhibit 2, and Pages 98 and through 101 of Exhibit 2.  
11 And, those are pages of your Asset Purchase Agreement  
12 with White Rock and your Asset Purchase Agreement with  
13 Lakeland. And, would you confirm that, in Sections  
14 1.1, 1.2, and 1.3, that it specifies exactly which  
15 assets and which liabilities of each of the current  
16 utilities that Abenaki is taking in this sale?

17 A. (Vaughan) That is correct.

18 Q. Attorney Brown also asked you a question about the  
19 merger of White Rock and Lakeland with Abenaki. Once  
20 the sale is consummated, and assuming all approvals are  
21 granted, and Abenaki is granted authority to operate as  
22 a utility, and White Rock and Lakeland no longer have  
23 the authority to operate, do you really know what  
24 happens to White Rock and Lakeland as corporate

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 entities?

2 A. (Vaughan) I can only imagine that they disappear. But  
3 that's at the discretion of their ownership.

4 Q. So, as a result of the transaction, Abenaki is a  
5 stand-alone corporation that has assumed certain  
6 liabilities and certain assets of White Rock and  
7 Lakeland moving forward?

8 A. (Vaughan) Correct.

9 MS. HOLAHAN: That's it. Thank you.

10 CHAIRMAN IGNATIUS: Thank you. Mr.

11 Jordan, any questions? Redirect?

12 MR. JORDAN: No thank you.

13 CHAIRMAN IGNATIUS: All right. Ms.

14 Brown, redirect?

15 BY MS. BROWN:

16 Q. Mr. Vaughan, in one of your responses concerning the  
17 Laconia agreement and working out a written agreement,  
18 you referenced -- you were asked about rates and  
19 potential for a rate increase, do you know if this  
20 verbal agreement is akin to like a special contract,  
21 where there's a fixed fee, or is the bill coming from  
22 Laconia just as if Lakeland were another customer and  
23 it's at that rate? Do you have an opinion on that?

24 A. (Vaughan) The only thing I know for sure in this

[WITNESS PANEL: Vaughan~Carson~Naylor]

1 arrangement is that Lakeland creates the bill and pays  
2 Laconia. And, it's based on volumetric wastewater as  
3 measured from the water meters.

4 Q. But do you have any knowledge about the rate that  
5 Laconia uses to bill this volume?

6 A. (Vaughan) I don't know the specific rate.

7 MS. BROWN: That's all the questions I  
8 had.

9 CHAIRMAN IGNATIUS: Thank you. Then,  
10 the witnesses are excused. If you want to gather back to  
11 your seats, that would probably make sense.

12 Ms. Brown, do you want to renew your  
13 request for a record request?

14 MS. BROWN: Yes. Notwithstanding Mr.  
15 Naylor saying that his opinion would not change, I think  
16 it would just be good practice for us to have that  
17 buttoned up, with some sort of a filing from the  
18 Companies, and it can either be from Abenaki or White Rock  
19 or Lakeland, Staff doesn't care. It's just wanting to  
20 know that that issue has been resolved and what that  
21 resolution is, so that, when we issue, you know, when the  
22 Commission is issuing its order, at least it knows what's  
23 happening with respect to the payments for that easement.

24 CHAIRMAN IGNATIUS: Is there any



1 objection to such a record request?

2 MS. HOLAHAN: No objection. Just a  
3 little bit of clarification as to what form you would like  
4 that notification to take, and whether there's a date by  
5 which it needs to be submitted.

6 CHAIRMAN IGNATIUS: All right. And, you  
7 can't see, but Mr. Jordan is towering over you.

8 MS. HOLAHAN: It's not hard to see.

9 CHAIRMAN IGNATIUS: Any comments, Mr.  
10 Jordan?

11 MR. JORDAN: Yes. Perfectly happy with  
12 reporting back to the Commission by a date certain as to  
13 whether there has been a resolution and, if so, what it  
14 is. But I cannot guarantee that it will be resolved by  
15 that date.

16 CHAIRMAN IGNATIUS: All right. And, I  
17 guess, in closings, I'm going to ask people to comment on  
18 whether they believe the transaction should be conditional  
19 upon this issue being resolved. So, have time to think  
20 about that. If -- what date would anybody recommend for  
21 hearing back on the status of this issue? And, if you  
22 want to confer off the record, that's fine.

23 (Off the record.)

24 CHAIRMAN IGNATIUS: All right. We're

1 back on the record. Mr. Jordan.

2 MR. JORDAN: As to timing, ten days,  
3 when the transcript is available, we'll get the report in  
4 at the same time.

5 CHAIRMAN IGNATIUS: Ten days from the  
6 transcript or ten days from today's hearing?

7 MR. JORDAN: No. Ten days from now.

8 CHAIRMAN IGNATIUS: That would be --

9 MR. JORDAN: Trying to make it  
10 contemporaneous with when you get the transcript.

11 CHAIRMAN IGNATIUS: Thank you.

12 MR. JORDAN: And, I perhaps  
13 misunderstood what Attorney Brown meant by "resolution".  
14 That, as I believe she has told me now, that it's the  
15 resolution of how the VSEA easement will be dealt with as  
16 between the buyer and the seller. That will be done by  
17 the ten days. And, if that's what the Court -- the  
18 "Court", the Commission means by "resolution", yes.

19 CHAIRMAN IGNATIUS: So, that's  
20 suggesting that there might be an understanding between  
21 the Companies, but there might be an ongoing issue between  
22 the Association and White Rock?

23 MR. JORDAN: Correct.

24 CHAIRMAN IGNATIUS: All right. I think

1 that's acceptable that we have a ten-day reporting back on  
2 the status between the buyer and the seller and the  
3 transaction. Is that acceptable to Staff? He's sort of  
4 characterizing your position, so I want to make sure  
5 that's correct?

6 MS. BROWN: Yes, since I was the sponsor  
7 of the record request. But I also wonder, we have some of  
8 the customers here, or representatives, and I know that,  
9 if they -- they hadn't had an opportunity to question, if  
10 they had any useful information or if they wanted to make  
11 a statement, perhaps they could do that prior to our  
12 closings. And, then, if there's other tweaks that we need  
13 to do to our closings, that we can do that. But I just  
14 wanted to remind the customers here that, if they want to  
15 speak up, they can add to this discussion. It doesn't  
16 have to be just among us attorneys.

17 CHAIRMAN IGNATIUS: Okay. All right.  
18 All very fair comments. That was going to be the next  
19 thing to talk about. So, why don't we hold off on the  
20 final terms on the record request, in case there's  
21 anything else that we hear that changes our view on it.  
22 But why don't we turn then to see if, Mr. Edy, do you have  
23 any comments?

24 MR. EDY: Only to state that the Board

1 of Directors is currently trying to find a mutual  
2 agreeable evening to meet with Mr. Jordan to discuss the  
3 resolution of this. And, I think, hopefully, it will be  
4 sometime later this week, if not next. Is that correct?

5 MR. JORDAN: It's Wednesday night, at  
6 7:30.

7 MR. EDY: It's Wednesday night, at 7:30.  
8 I'm always the last to know these things.

9 CHAIRMAN IGNATIUS: All right. Well,  
10 that's perfect.

11 MR. EDY: And, we look forward to the  
12 meeting.

13 CHAIRMAN IGNATIUS: All right. Thank  
14 you. Ms. Crystall, any comments?

15 MS. CRYSTALL: No. I just -- I'm very  
16 aware of the easement, and the fact that the water quality  
17 in that well, that inactive well that's in the easement is  
18 not worth using. So, I was familiar with the  
19 non-usability of it for the water company, from that  
20 perspective alone.

21 CHAIRMAN IGNATIUS: Thank you. And,  
22 Mr. Hammond?

23 MR. HAMMOND: I don't know if these are  
24 -- this is a question that warrants this particular

1 setting or not. But, as a customer, I've heard about how  
2 we're going to try and increase the supply of water in the  
3 area. In the absence of ground water supply, is there any  
4 provision that ensures that we have continuity of supply  
5 in those shortages or not? And, is there any way of  
6 making sure that we don't have one of the customers in the  
7 neighborhood consuming all of that supply?

8 CHAIRMAN IGNATIUS: And, so, that's --

9 MR. HAMMOND: We experienced that within  
10 the last year. A garden hose was actually left on for  
11 four days, and drained the whole system for the whole 95  
12 houses in the neighborhood. So, it seems to me with those  
13 new meters, we might be able to learn something about that  
14 consumption in the neighborhood and reduce the demand.

15 CHAIRMAN IGNATIUS: All right. And, is  
16 that something that you've brought to the attention of  
17 White Rock in the past?

18 MR. HAMMOND: White Rock is familiar  
19 with that. Certainly, with the demand problem, yes.

20 CHAIRMAN IGNATIUS: And, there was a  
21 reference to "limited storage options" in the response, I  
22 take it that's part of your issue?

23 MR. HAMMOND: Part of it is, if you have  
24 access to ground water that you could bring up for supply,

1 but, if it has been drained, a year ago, when we ran out  
2 of water, White Rock tanked in water from Concord or one  
3 of the other communities, helped fill up the supply tanks,  
4 so that we could have water. In the absence of the  
5 increase of supply, what will happen to provide us  
6 alternative supply? That's, I guess, what I was --

7 CHAIRMAN IGNATIUS: And, I think, as you  
8 started, you said "this may not be the right forum", and  
9 it probably isn't part of this proceeding. But I think,  
10 I'm glad you raised it, and the Company, the folks from  
11 Abenaki are here and heard those concerns. I would assume  
12 that, after this hearing, you could talk for a moment and  
13 make sure that they fully understand what the problem is,  
14 if they're not already aware, and look into those  
15 questions for you.

16 I see nodding from the Company. Thank  
17 you. All right. Anything further regarding the record  
18 request? I see nothing that changes the thinking on it,  
19 and that we would think it acceptable to reserve Exhibit  
20 Number 6 for a response from Abenaki, or Lakeland and  
21 White Rock together, regarding the resolution of the  
22 easement issue between the buyer and seller of this  
23 transaction, within ten days, no longer than ten days from  
24 today's hearing. Is that acceptable to everyone? Are we

1 clear?

2 MS. BROWN: Thank you.

3 MR. JORDAN: Acceptable.

4 CHAIRMAN IGNATIUS: Thank you.

5 **(Exhibit 6 reserved)**

6 CHAIRMAN IGNATIUS: Then, is there any  
7 objection to striking the identification of the six  
8 exhibits and making them full exhibits?

9 MR. JORDAN: None.

10 CHAIRMAN IGNATIUS: Good. We will do  
11 so. The last thing then would be closing statements.  
12 And, let's begin first with the Staff. Ms. Brown.

13 MS. BROWN: Thank you, Commissioners,  
14 for your time today and your consideration of the  
15 Settlement Agreement. Staff supports the Agreement and  
16 respectfully requests that you approve it. Pursuant to  
17 RSA 374:22, no person or business can commence -- shall  
18 commence business within this state or exercise any right  
19 or privilege under a franchise without first obtaining  
20 permission from this Commission. And, under RSA 374:26,  
21 the Commission grants permission, after hearing, once it  
22 has found that the franchise is in the public good. And,  
23 the Commission usually or routinely looks at "public good"  
24 in terms of whether the companies have managerial,

1 technical, and financial capabilities. The evidence that  
2 we've put forth today establish, in Staff's opinion, that  
3 Abenaki has the requisite managerial, technical, and  
4 financial capabilities to take on the franchises of  
5 Lakeland and White Rock.

6 Abenaki will keep much of the existing  
7 management, and the transition to Abenaki from White Rock  
8 and Lakeland will be seamless to the customers, with the  
9 introduction of, well, the continuation of the billing  
10 pattern, there will be an 800 number that will be added,  
11 and the billing format, as demonstrated in Exhibit 4,  
12 seems to be very clear and comparable to the existing  
13 billing format that customers are used to seeing.

14 Being part of a larger entity, White  
15 Rock and Lakeland will have access to efficiencies and  
16 savings that it doesn't enjoy at this point. Billing  
17 functions will be done by other -- will be done on a group  
18 basis, and White Rock and Lakeland will benefit from only  
19 paying for the billing function that is apportioned to  
20 their work. Same with the technical personnel, it will  
21 have access to technical personnel that it couldn't  
22 otherwise hire on its own.

23 With respect to its financial  
24 capabilities, Abenaki will come out of this acquisition



1 with a 50 percent debt/50 percent equity, roughly, capital  
2 structure. And, Staff believes this is very necessary for  
3 a sustainable company. The Commission routinely prefers  
4 regulated utilities keep an approximate 50/50 capital  
5 structure.

6 With respect to its size, Abenaki will  
7 be part of a roughly 7,000 customer count group. In  
8 comparison to other utilities, which is Pennichuck Water  
9 Works or Pennichuck family of companies, which is  
10 Pennichuck Water Works, Pittsfield Aqueduct Company, and  
11 Pennichuck East, has about 34,000 customers in total.  
12 Aquarion, which is the next largest company, has about  
13 9,000 customers, but it has access to greater resources in  
14 Connecticut. So, Abenaki is going to be about the size of  
15 Aquarion. But its resources in Connecticut and  
16 Massachusetts will be comparable, won't be as large, but  
17 at least they will have access to those other resources  
18 for the efficiencies and savings that it can bring to its  
19 White Rock and Lakeland customers.

20 Similar to the Pennichuck companies and  
21 Hampstead, you have a regulated water utility and you have  
22 unregulated parts of the company. And, together, they  
23 form akin to a three-legged stool, where the financial  
24 firmity of the company is improved, rather than just

1 having a water utility that is solely a regulated  
2 component, and doesn't have the unregulated affiliates to  
3 help support its functions.

4 You've heard today that Abenaki  
5 routinely goes through a capital improvement planning and  
6 budgeting, and coinciding with a rate relief planning  
7 process. Staff is encouraged by that.

8 For the reasons stated by Mr. Naylor and  
9 representing the Settlement Agreement, Staff believes that  
10 this is a sustainable enterprise, and is in the public  
11 good, and requests that the Commission approve Abenaki's  
12 request to acquire the franchise, and that White Rock and  
13 Lakeland's request to cease regulated provision of water  
14 service be granted. Thank you.

15 CHAIRMAN IGNATIUS: And, Ms. Brown, the  
16 question I had asked, do you see it as a requirement of  
17 the closing that the issue be resolved, the easement issue  
18 be resolved between the buyer and seller?

19 MS. BROWN: It would be nice. But I  
20 don't see that -- Staff doesn't see that has holding it  
21 up. And, we've had other companies be sold, and there  
22 have been accounts payable out there, and this is akin to  
23 an accounts payable. And, as long as there's some  
24 resolution for addressing it, Staff doesn't see that it

1 should be -- it should hold up the approval process.

2 CHAIRMAN IGNATIUS: Thank you.

3 Commissioner Harrington.

4 CMSR. HARRINGTON: You just raised one  
5 point in my mind that I wanted to get straight. You  
6 talked about the non-regulated companies there. Is there  
7 an affiliate agreement proposed between Abenaki and these  
8 non-regulated entities?

9 MS. BROWN: Yes. And, Mr. Vaughan  
10 testified that he is aware that affiliate agreements ought  
11 to be -- or, need to be filed with the Commission. He  
12 will be following up -- Abenaki will be following up with  
13 that. And, that the affiliate agreements, I believe, are  
14 with the old C&C employees and New England Service  
15 Company.

16 CMSR. HARRINGTON: Okay. So, those will  
17 be coming later?

18 MS. BROWN: Yes.

19 CMSR. HARRINGTON: Okay. Thank you.

20 CHAIRMAN IGNATIUS: Thank you. Ms.  
21 Holahan.

22 MS. HOLAHAN: Thank you. The Commission  
23 is familiar with these two systems, and the fact that the  
24 members of the Crawshaw family have dedicated decades of

1 their lives to operating and managing these systems and  
2 providing great service to their customers. Abenaki, with  
3 the help of its parent, New England Service, intends to  
4 build on their hard work. And, with a more robust  
5 administrative infrastructure, better access to capital,  
6 and a bigger workforce, so, a desire to take the companies  
7 to the next level, while maintaining the same level of  
8 customer service.

9                   Accordingly, Abenaki respectfully  
10 requests that the Commission approve the Settlement  
11 Agreement, and, in particular, the authority of -- or, the  
12 authority for Abenaki to operate as a public utility here  
13 in New Hampshire, for White Rock and Lakeland to cease  
14 operations in New Hampshire, and for White Rock and  
15 Lakeland to transfer substantially all of their  
16 utility-related assets to Abenaki, and for Abenaki to --  
17 authority to issue long-term debt in the amount of 3,000  
18 -- \$300,000.

19                   In addition, the issue of the easement  
20 will be resolved between the buyer and the seller prior to  
21 -- prior to closing. However, based on the -- whether the  
22 easement is necessary to ongoing utility operations,  
23 Abenaki would request authority to amend the Asset  
24 Purchase Agreement going forward, if it determines that

1 it's not going to take that asset going forward. I think  
2 we've heard testimony today that it wouldn't affect  
3 Staff's position on the viability of the transaction.  
4 And, if it is determined that it's not necessary, we would  
5 like the authority to amend the Agreement, without coming  
6 back to the Commission. Thank you very much for your time  
7 today.

8 CHAIRMAN IGNATIUS: Thank you. Mr.  
9 Jordan, yes?

10 MR. JORDAN: You're so accustomed to me  
11 being brief, for all the reasons stated by Attorney Brown  
12 and Attorney Holahan, the Companies ask that you grant the  
13 Petition.

14 CHAIRMAN IGNATIUS: Nicely done. Thank  
15 you. I want to just make one final comment before we  
16 close the hearing. And, that's that we do hear about  
17 struggles that small companies face, both in efficient  
18 operations and financing difficulties, and some of the  
19 high capital investments that are required going forward.  
20 And, so, we welcome another company that's interested in  
21 bringing some economies of scale into the systems. And,  
22 we will consider the Settlement Agreement and all of the  
23 terms that have been set forth today very seriously.

24 I also want to note that this moved

1 extremely quickly by PUC time. Looks as though we went  
2 from a filing in August, to discovery beginning in  
3 October, and here we are at a hearing the first week of  
4 December, which is, I think, a sign of a pretty committed  
5 group of people who wanted to get through an awful lot of  
6 different transactions as quickly as possible and still do  
7 the necessary work to explore each of the transactions  
8 that are being proposed here. So, I thank you all for  
9 trying to move this quickly, and still be thorough in the  
10 process. And, we will do the same on our end.

11 So, with that, we'll take all of this  
12 under advisement. And, we are adjourned. Thank you.

13 **(Whereupon the hearing was adjourned at**  
14 **12:28 p.m.)**