OCA Exhibit 1

BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

ORIGINAL
N.H.P.U.C. Case No. DW 12-085
Exhibit No. 11
Witness S. Eckberg
DO NOT REMOVE FROM FILE

In the matter of:

Aquarion Water Company of New Hampshire, Inc.)
DW 12-085)
Permanent Rate Case)

CORRECTED
Direct Prefiled Testimony

Of

Donna L. McFarland
On behalf of the NH Office of the Consumer Advocate

Dated: ~~January 11, 2013~~
February 7, 2013

I. Introduction

Q. Please state your name and business address.

A. My name is Donna L. McFarland. I am employed by the New Hampshire Office of Consumer Advocate (OCA) as the Finance Director. My business address is 21 South Fruit Street, Suite 18, Concord, New Hampshire.

Q. Please describe your duties as Finance Director and provide information about your professional experience and education.

A. I am responsible for participating in proceedings at the New Hampshire Public Utilities Commission (Commission), including performing analysis of utility filings. In this context, I identify and investigate financial and ratemaking issues, and draft discovery and testimony. I joined the OCA in 20 II, and this is the first time that I have testified before the Commission. I have actively participated in all other phases of adjudication in many dockets at the commission.

Prior to the OCA, from 2007 through 20 II, I was employed as a Financial Auditor with the New Hampshire Legislative Budget Assistant- Audit Division. My duties involved auditing the financial statements of New Hampshire agencies, boards, and commissions in accordance with Government Auditing Standards. In 2006, I graduated from Southern New Hampshire University with a Bachelor of Science degree in Accounting. During the course of my career, I have obtained numerous continuing education credits in accounting, auditing, and finance. For example, I attended the National Association of Regulatory Utility Commissioners Annual Regulatory Studies

Program sponsored by New Mexico State University in 2011. DLM-1 contains a more detailed summary of my education and experience.

II. Purpose of Testimony

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to provide information and the OCA's recommendations related to the costs of employee compensation and benefits included in the permanent revenue requirement proposed by Aquarion Water Company of New Hampshire (Company); and the costs of services provided by an employee of a Company affiliate. In addition, I provide the OCA's recommendation for the filing of a cost of service study in the Company's next rate case.

Q. Did you review the testimony and exhibits filed by the Company in this proceeding?

A. Yes. I also reviewed numerous responses to discovery requests and other documents related to the Company, its affiliates and proceedings in other jurisdictions.

Q. Please summarize your conclusions.

A. My conclusions are summarized as follows:

- Since its last rate case, the Company has increased employee wages by an unjust and unreasonable amount. The costs associated with these unsupported wage increases, as well as a number of other employee benefits, are included in the Company's proposed revenue requirement for recovery from customers. During the time of these significant wage increases, the Company's customers lived through financial crises and economic recession. These circumstances along with the information provided by the Company about these wage increases do not support a conclusion that the wage increases proposed by the Company – as well as the proposed rates resulting from including the costs of the wage increases – are just and reasonable. Therefore, the Commission should permit the Company to recover through customers' rates only 50% of the total costs associated with the unsupported wage increases.

- The Company does not have an affiliate agreement with its Massachusetts affiliate, yet the Company included within its proposed revenue requirement the costs associated with a Massachusetts affiliate employee. These costs should not be recovered from customers absent an approved affiliate agreement between the Company and its Massachusetts affiliate.

- The Company has not analyzed its cost of service and rate design since 2005. Given the passage of time and other considerations, the Commission should require the Company to prepare and file a cost of service study in its next rate case.

III. The Company and its Permanent Rate Proposals

Q. Please describe the Company and its permanent rate proposal.

A. The Company is a regulated utility and a wholly-owned subsidiary of the Aquarion Water Company. The Aquarion Water Company, based in Connecticut, is wholly-owned by the Aquarion Company, which is owned by Macquarie Utilities, Inc. Aquarion Water Company also owns water utilities in Connecticut and Massachusetts. Testimony of Troy M. Dixon, Bates p. 81, lines 1 through 6, dated May 14, 2012.

The Company provides water service to approximately 9,100 New Hampshire customers in the towns of Hampton, North Hampton, and Rye, with 137 miles of water mains. Testimony of Carl McMorran, Bates p. 53, line 23, dated May 14, 2012. For the year ended December 31, 2011, the Company reported $5,969,630 million in revenues. Testimony of Dixon, Schedule 1, line 5. The Company has $26,383,788 in net utility plant. Testimony of Dixon, Schedule 3, p. 1.

The Company's last rate case concluded in September, 2009, with an increase of 18.14% to residential customer rates. Settlement Agreement (July 10, 2009), DW 08-098, Attachment A, p. 1. Since that time, through the Water Infrastructure and Conservation Adjustment (WICA) pilot program, these rates have increased by an additional 3.7269%. Order No. 25,311 (December 30, 2011), DW 11-328.

On May 14, 2012, the Company filed proposed changes to its rates based upon a twelve-month test year ending December 31, 2011. Testimony of Dixon, Schedule 1, line 5 (May 14, 2012). The Company originally proposed a permanent overall rate increase of 18.3%. Following discovery, the Company decreased the proposal to 17.71%. Staff 3-11, Attachment A (DLM-2) (excerpts only).

In addition, the Company requests Commission approval of the WICA pilot program as a permanent surcharge mechanism. The WICA proposal and other proposed changes to the Company's tariff are addressed in the separate testimony of Scott J. Rubin, filed on behalf of the OCA.

IV. Employee Wages

Q. Your first conclusion, stated above, relates to the just and reasonableness of the employee wage costs proposed by the Company. Before turning to the specific details of this conclusion, please describe the wage-related and other benefits available to the Company's employees.

A. The Company currently offers the following benefits and incentives to employees, in addition to wages:

- Wage Increases: Non-union employees are eligible for an increase on April 1st each year. See response to OCA 2-11 (DLM-3).[1] According to the Company wage increases are based on merit and cost of living increases. Id. Under the current contract, union employees were eligible for wage increases on December 1, 2011 (3%) and on December 1, 2012 (3.5%). According to the

[1] DLM-3 includes the Company's redacted response to OCA 2-11 and excerpts from the redacted version of OCA 2-11 Attachment B.

Company's response to OCA 2-13 (DLM-4),[2] the union contract expires on November 30, 2013.

- Vacation and Sick Days: Union employees, both full-time and part-time, are eligible for paid vacation and sick days after six months of service. Id.
- Employee Incentive Compensation: Non-union employees earn employee incentive compensation. OCA 2-10 (DLM-5). "The objectives of the Employee Incentive Plan are to incentivize employee behavior toward improving customer service and business performance goals and to attract and retain employees." Id. For employees meeting individual and team performance goals and measures, bonus amounts are based on a percentage of the employee's annual salary. See OCA 2-10 Attachment A (DLM-5), p. 3.
- Pension and 401k Plans: These plans are available to all employees based on their hire date.
    - Pension plans are only available to non-union employees hired prior to October 1, 2009, and union employees hired prior to January 1, 2011. OCA 3-20 (DLM-7).
    - The 401k plans are available to all employees. OCA 3-19 (DLM-6). However, the Company's matching percentage is different based on hire date. Id. Non-union employees hired prior to October 1, 2009, and Union employees hired prior to January 1, 2011, are matched at 75% of their contribution up to 6% of their annual salary. Id. For

[2] DLM-4 includes the Company's response to OCA 2-13 and excerpts from OCA 2-13 Attachment A.

employees hired after October 1, 2009 (for non-union employees) and January 1, 2011 (for union employees), the Company's matching percentage increases to 100% of the employee's contributions up to 6% of their annual salary. Id.

- Life Insurance and Long Term Disability: According to the response to OCA 2-26 (DLM-8), the Company pays 100% of the cost of benefits for all employees.
- Medical, Dental, Vision Plan Insurance: The Company covers approximately 90% of the costs associated with these benefits for all employees. See DLM-4.
- Union Contract Benefits: In addition to the benefits described above, the Company provides the following benefits only to its union employees:
  - Certification Incentive Compensation: union employees receive $100 incentive upon obtaining and renewing their Backflow Device Tester License. The Company pays for the certification exam, renewal fees, and educational/training fees.
  - Physical Fitness Reimbursement: The Company reimburses employees for 75% of the cost of physical fitness activities, up to $200 per calendar year.
  - Educational Reimbursement: Employees receive a reimbursement match of $2,500 per calendar year for educational costs regardless of grade(s) received.

- Educational Assistance Program: Employees maintaining a "C" grade or better are eligible to be reimbursed 100% of the first $3,000 and 80% of the second $3,000 in educational costs per calendar year.

See DLM-4.

Q. Turning to your conclusion about wage increases, what is the basis of your understanding?

A. My wage increase conclusions are derived from analyses of the Company's Salary and Wage Schedules No. 1C, filed in both this proceeding and the Company's last rate case. DLM-9.

Q. You concluded from your investigation that the Company's wages have increased by approximately 16%, for union employees in the four years since its last rate case. What is the dollar value of these wage increases?

A. The approximate 16% wage increase level equates to $61,749.[3] (DLM-9.)

Q. Please describe the basis of these union wage increases.

A. The approximate 16% increase results from the 3 to 3.5% annual increments union employees have received since the last rate case. The most recent of these annual wage increases for union employees occurred in December 2012.

[3] The $61,749 is the total of the Union employee wages ($58,814) and wage increase ($2,935) difference calculated in DLM-9 column C.

Q. **You concluded from your investigation that the Company's wages for non-exempt, non-union have increased by approximately 24% in the four years since its last rate case. What is the dollar value of these wage increases?**

A. The approximate 24% wage increase level equates to $17,229. (DLM-9)

Q. **Please describe the basis for the non-exempt, non-union wage increases.**

A. Similar to the increase for union employees, the wage increases for non-exempt, non-union employees is the culmination of the 3% annual increments received by these employees since the last rate case. The most recent of these annual wage increases for non-exempt, non-union employees occurred in April 2012.

Q. **You concluded from your investigation that the Company's wages for officer and exempt, non-union decreased by 4.18% since its last rate case. What is the dollar value of this reduction in wage costs?**

A. The 4.18% reduction in officer and exempt, non-union wage costs equates to $8,579. (DLM-9)

Q. **Please describe the basis of this reduction in these wage costs.**

A. The OCA is uncertain about the basis of the reduced officer and exempt, non-union wage costs. The Company did not provide detail in its filing to substantiate these costs.

However, in light of changes in officer personnel since the last rate case,[4] the OCA posits that the decrease may be in part due to the differences in the salaries paid to these individuals and the timing of the personnel changes in relation to the test year.

Q. If you are not certain about the basis of these exempt, non-union wage decreases, why did you consider them in formulating your recommendation on wage cost recovery?

A. We included these wage decreases, notwithstanding our uncertainty about their validity, in the interest of providing the Commission a complete picture of the change in employee wages since the last rate case.

Q. In addition to the cost of these wage increases, does the Company's proposed revenue requirement include incentive compensation for officers and non-union employees?

A. Yes. The Company includes a pro forma test year amount of $17,593 associated with bonuses paid to officers and non-union employees. Staff 3-11, Schedule No. 1E, p. 14 of 68 (DLM-2).

Q. You referred to the troubled state of the nation's economy during the period of time since the last rate case. What is the basis of your understanding?

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[4] For example, the rates charged customers since the last rate case have included the costs associated with the Company's then-new Vice President of Operations, Harry Hibbard. Mr. Hibbard left the Company and John Walsh assumed his position in 2012.

A. The OCA relies upon testimony by J. Randall Woolridge, Ph.D., recently filed at the Federal Energy Regulatory Commission (FERC). Although this FERC proceeding concerns the return on equity earned by transmission owners in the electric market, Dr. Woolridge's testimony contains some general information about, and a chronology of, the recent financial crises and recession experienced during the same time that the Company was giving its employees annual raises and bonuses. Testimony of J. Randall Woolridge, Ph.D., (October 1, 2012), FERC Docket Nos. EL 11-66-000 and EL 11-66-001, excerpt only, pp. 8-10 (DLM-10).

As described by Dr. Woolridge, since 2008, "the mortgage crisis, subprime crisis, credit crisis, economic recession and the restructuring of financial institutions have had tremendous global economic implications." Id. at p. 8, lines 22-24. These impacts have included the failures of several large financial institutions, the federal government's spending of billions to buy-out, bail-out or takeover other financial institutions, and the spending of billions more aimed at creating jobs and turning around the economy. Id. at pp. 8-9. Dr. Woolridge concludes, even at this time, "...the U.S. is still saddled with relatively high unemployment, large government budget deficits, continued housing market issues, and uncertainty about future economic growth." Id. at p. 9, line 22-24.

Q. You previously referred to the information provided by the Company to support the wage increases and bonuses paid to employees. What information did the Company provide?

A. During discovery the OCA propounded several requests to the Company regarding how salaries and wages are determined. According to the Company, it bases its union and non-union wages upon studies or surveys conducted by outside consultants. DLM-3. The Company also provided under the claim of confidentiality "the results of the studies related to New Hampshire [non-union] employees." Id.

Q. What observations do you have to offer about this Company-provided information?

A. I offer the following observations about the information provided by the Company:

- <u>Non-union Compensation</u>
    - <u>Exempt Non-union</u>

      To set compensation for "higher level Managers and Director positions," referred to herein as exempt non-union, Aquarion relied upon a survey conducted by Saje Consulting Group, Inc., in 2012. DLM-3. Saje sent the survey instrument to 11 companies which possess an ownership interest in one or more water utilities. OCA Tech 1-3 (DLM-11). Only eight companies responded to the survey. DLM-3 (Attachment B, p.1) and DLM-11. Six of the participants own multiple regulated and unregulated entities. DLM-3 (Attachment B, p.4). Five of the participants have annual regulated revenues greater than $51 million. Id. at p.5. Five of the participants have more than 100,000 customers. Id. at p.7. Five participants have more than $301 million in net utility plant. Id. at p.7. The average number of non-union employees employed by the survey participants was 430. Id. at p. 8. Five participants have more than 200 employees total. Id. at p. 9.

- Non-exempt Non-union

The Company also identified Executive Resource Group (ERG), an "independent compensation consultant, as the source of "marketplace" information about employee compensation. OCA Tech 1-1 (DLM-12). The Company provided the "results of the studies related to New Hampshire employees" but did not provide a copy of the study. According to the Company, the "2011/2012 Comparator Group" used by ERG totaled 32 in number and included the following companies: General Electric, International Paper, New York ISO, Philip Morris USA and Verizon Communications. DLM-12 (and Attachment A). In fact, it appears that most of the "Comparables" are not public water utilities. Id.

- Union Compensation

Although the Company asserted that it relies on "survey data and relevant market indexes to establish a basis for negotiating the hourly [wages] for the union employees," DLM-3, the Company did not provide union-compensation survey results in response to discovery.

Q. Did you consider other information in addition to the Company-provided information?

A. Yes. I reviewed the recent wage policies of the State of New Hampshire for its employees as well as information provided by the New Hampshire Department of Employment Security.

Q. What did you learn?

A. The State of New Hampshire eliminated 250 positions during fiscal years 2010 and 2011. It froze wage increases for fiscal years 2011, 2012, and part of 2013.[5] Retirees on the New Hampshire Retirement System received a 1.5% cost-of-living increase for years 2008 to 2010 and none for years 2011 and 2012.

In addition, according to the New Hampshire Employment Security publication "New Hampshire Economic Conditions" dated September 2012, between 2008 and 2009, the period when the recession took hold, there was a 2.4% reduction (17,000) of the average number of New Hampshire residents working. The number of employed individuals increased by only 4,000 by 2011 with only 78.6% of the average number of residents employed working full time.

Q. During the time since the Company's last rate case, what were the cost-of-living adjustments for persons on Social Security?

A. Recipients of Social Security did not receive benefit increases in 2009 and 2010. They received a 3.6% increase for 2011 and a 1.7% increase for 2012. See Social Security

[5] Executive Orders 2011-5 and 2011-6 issued by Governor Lynch instituted pay freezes for State of NH government employees.

Administration website, Cost-of-Living Adjustments, available at http://www.ssa.gov/oact/cola/colaseries.html.

Q. What do you conclude from the information that you reviewed?

A. I reached the following conclusions based upon the information that I reviewed:

- The Saje compensation study relied upon by the Company to set non-union wages does not form a reasonable and reliable basis to support the Company's wage increases. Only eight companies participated in the survey, and most of the participants in the survey are much larger than the Company and are otherwise not comparable.

- The ERG compensation analysis is flawed and unreliable for the same reason, to an even greater extent. Although there were 32 "Comparables" included in the ERG analysis, this group includes huge companies with global markets.

- The Company offers its employees generous benefits in addition to wages. Also, New Hampshire may differ – in terms of economic circumstances and opportunities – from the geographic areas in which the comparison companies operate. If the Company relied upon the external market information provided by Saje and ERG without considering the value of these Company's benefits and the economic differences associated with geographic location, the results may be skewed to the detriment of customers.

Q. What do you recommend?

A. On behalf of the OCA, I recommend that the Commission limit customer recovery to an equitable portion of the total amount of wage increases since the last rate case. In addition, I recommend that the Commission similarly limit recovery from customers of the annual incentive compensation costs built into the Company's proposed revenue requirement. The Company has failed to show that these costs are just and reasonable, and the Company's customers should not be required to compensate the Company for these costs without such support. Specifically, the OCA recommends that the Commission authorize the Company to recover 50% of these costs.

Q. Upon what basis is the recommended 50/50 split of these costs between customers and the Company's shareholders?

A. The OCA's allocation proposal is based simply on the principles of equity and fairness. Dividing the costs of the unsupported wage increases seemed a reasonable solution. Balancing the interests of customers and shareholders is also consistent with the Commission's statutory duty to balance the interests of customers and shareholders. RSA 363:17-b. Lastly, the OCA strives to operate within budgetary limits and to keep litigation costs, which are recovered from customers through utility bills, as low as possible. Consistent with these goals, we did not hire a compensation expert for this proceeding. Given these circumstances, recommending a simple allocation formula seemed in the best interests of customers.

Q. What is the impact on the Company's proposed revenue requirement of this OCA recommendation?

A. The OCA's recommendation results in a total reduction in recovery from customers of $43,996, which total reduction is comprised of $35,199 related to wage costs and $8,797 related to incentive compensation costs. (DLM-9)

Q. With the OCA's recommended level of wage-cost recovery, what is the average wage increase that you recommend the Company recover from customers?

A. As can be seen on Attachment DLM-9, sharing the Company's wage increase equally between shareholders and customers results the Company's recovery from customers of a 5.31% wage increase over the wages included in the DW 08-098 rate case.

Q. Your second conclusion concerned the costs of services provided to the Company by its Massachusetts affiliate without an approved affiliate agreement on file with the Commission. Please describe the services provided by the Company's affiliate

A. Late in the discovery period, the Company first revealed that there was an employee of the Massachusetts Aquarion Water Company providing services to the Company. OCA 3-12 (DLM-13) and OCA Tech 1-5 (DLM-14). According to the Company, this employee provides administrative and technical support to the Vice President of Operations (for both Aquarion Massachusetts and the Company). DLM-14)

Q. How are the costs of these services recovered from the Company from its Massachusetts affiliate?

A. Based upon the information provided by the Company, the costs for this Aquarion Massachusetts' employee's services are (and have been) directly charged to the Company.

Q. What is the annual cost to the Company for these affiliate services?

A. The Company quantified the annual costs of this employee as $18,000. DLM-14

Q. What is the basis for your conclusion that the Company does not have an approved affiliate agreement with its Massachusetts affiliate on file with the Commission?

A. The Company acknowledged in discovery that it does not have an affiliate agreement with its Massachusetts affiliate. Id p.2

Q. Was this information provided by the Company in its original filing in this proceeding?

A. Not that I am aware of. I learned of this information late in the discovery period. Consequently, the OCA was unable to gather additional information about this employee, the services she provides to the Company or the nature of the informal agreement between the affiliates which guides her work and the billing of the Company for these services.

Q. What do you recommend the Commission do with regard to these unauthorized affiliate costs?

A. On behalf of the OCA, I recommend, based upon the information available, that the Commission disallow the recovery of these costs from the Company's customers because the Company does not have an approved affiliate service agreement with Aquarion Massachusetts, outlining the services to be provided or how the costs are charged to the Company. This recommendation will result in a reduction to the Company's revenue requirement of $18,000. Also, I recommend that the Commission require the Company to 1) file an affiliate agreement (with its Massachusetts affiliate) for review; and 2) expressly disclose the existence of any Massachusetts affiliate costs included in future proposed revenue requirements, in its original filing for such cases (e.g., in the Salaries and Wages Schedule No. 1C).

Q. Your third conclusion is that the Company should prepare and file a cost of service study in its next rate case. Please explain the rational underlying this conclusion.

A. Cost of service studies are used in utility ratemaking to guide the allocation of a company's required revenue requirement to the different categories or classes of customers. The results of a cost of service study are based on an analysis of how each class of customers cause costs to be incurred by the Company in providing service to these customers. Over time, inputs required for such a study may vary and change, which changes may affect, and need to be reflected, in a company's revenue requirement allocations in order to assure that customers pay just and reasonable rates.

According to the Company's response to OCA 2-42 (DLM-15), the Company last conducted a cost of service study in 2005, before the 2006 acquisition of the Company by

Macquarie. See Order 24,691 (October 31, 2006), DW 06-094. Since that time, the Company was acquired by Macquarie, see Order 24,691 (October 31, 2006), DW 06-094; the Company has filed two rate cases and received WICA rate increases; Aquarion has invested more millions of dollars in capital improvements, and the Company has observed changes in consumption. See, e.g., Testimony of Dixon, Bates p. 69, line 31, and p. 70, lines 1-2; Staff 2-24 (DLM-16) (attachments not included); and Staff 2-25 (DLM-17). In light of these circumstances, it is reasonable for the Commission to require the Company to conduct a cost of service study prior to, for filing in, the next base rate case.

Q. Before concluding your testimony, please summarize your recommendations on behalf of the OCA.

A. The OCA recommends that the Commission reduce the Company's revenue requirement by $61,996: $35,199 related to unsubstantiated wage costs; $8,797 related to unsubstantiated incentive compensation costs; and $18,000 related to unauthorized affiliate costs. In addition, the OCA recommends that the Commission require the Company to prepare and file a cost of service study at the time of its next base rate case.

Q. Does this conclude your testimony?

A. Yes.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 2

Data Request Received: September 26, 2012
Request No.: OCA 2-13

Date of Response: October 10, 2012
Witness: T. Dixon

REQUEST: Reference Testimony of Troy M. Dixon (Bates p. 73). At lines 10-12, "Salaries and Wages" have increased approximately $109,000 since DW 08-098 in order to keep pace with industry standards and retain a capable workforce and meet the Company's contractual obligations to its union employees. Please provide specifics about the "Company's contractual obligations to its union employees." When were the contracts underlying these obligations signed? What pay increases are required by these contracts?

RESPONSE: Please refer to OCA 2-13 Attachment A for the union contract. The contract is dated December 1, 2010. Please refer to Attachment A page 12 for the required pay increases.

AGREEMENT

AQUARION WATER COMPANY OF NEW HAMPSHIRE

and

UNITED STEELWORKERS
ON BEHALF OF AMALGAMATED Local No. 8938

December 1, 2010

hourly rate. If overtime is applicable to the Supply Operator rate, overtime will be paid on the premium also. If a Supply Operator is called out and responds to a call between the hours of 10:00 p.m. and 6:00 a.m. and is able to resolve the call out via telephone, then the Supply Operator will be paid one (1) hour at straight time. Employees performing flushing operations between the hours of 4:00 p.m. and 8:00 a.m. shall be paid at 1.25x their regular hourly rate.

Employees scheduled to work the meter change program and customer service work on Saturday and/or Sunday (with at least 24-hour notification of such schedule work week change) shall receive a premium of one dollar ($1.00) per hour in addition to the regular hourly rate.

Certification Incentive

All employees hired after December 1, 1997, will be required to obtain and hold valid certification licenses as required by the New Hampshire Department of Environmental Services as a condition of employment. The following certifications are currently required:

(General Foreman	Distribution Grade III and Treatment Grade I
Working Foreman	Treatment Grade I & Distribution Grade II
Senior Operator	Treatment Grade II & Distribution Grade II
Supply Operator	Treatment Grade I & Distribution Grade I
Utility Worker	Distribution Grade I

An employee promoted into the General Foreman, Working Foreman and Senior Operator positions must hold the required certification for that position. Employees hired or promoted into the Supply Operator and Utility Worker positions will be required to obtain certification within three (3) years.

Employees holding or obtaining the New England Water Works Association Certified Backflow Device Tester Surveyor License shall receive a lump sum incentive payment of one hundred dollars ($100.00). Incentive payment shall be reissued upon renewal of said Backflow Device Tester License.

The Company will pay certification exam and renewal fees and educational/training fees.

SECTION 25. NORMAL WORK WEEK AND PAY DAY

For the purposes of computing pay and determining weekly overtime the normal work week shall begin at 12:01 a.m. Saturday and end at 12:00 midnight Friday.

The regular pay day shall be the first Thursday after the end of the normal work week. From time to time for purposes of payroll preparation, the normal work week and payday may change with reasonable notice given. Furthermore, a direct deposit payroll system may be implemented with reasonable notice. Employees are not authorized to leave early on pay day.

The Company agrees to a pumping rotation such that Thursdays and Fridays are off providing four days off at the end of the pumping schedule.

SECTION 26. PROMOTIONS AND TRANSFERS

Any employee promoted to a higher rated position shall be paid either the rate he was receiving in his old position or the rate based on length of service in the new position, whichever is greater. The final rate for any position shall determine which is the higher rated of any two classifications. In no event, however, shall an employee promoted to a higher rated position receive less than the rate he was receiving in his old position.

Effective January 1, 2011, employees will have 13 holidays (which include those specified above and Martin Luther King Jr. Day). Effective January 1, 2012, employees will have 12 holidays. If by December 31, 2011, the union does not provide the Company with the substituted holiday, (Columbus Day, Veteran's Day), then the Company will substitute Martin Luther Kind Jr. Day for Columbus Day.

In addition to the above twelve (12) holidays, one (1) floating holiday per employee may be taken. Requests for approval of the Floating Holiday are to be made by employees to their immediate supervisor with approval of Floating Holiday subject to the operating requirements of the Company.

If a holiday falls on Sunday, it will be observed on the following Monday. Holidays falling on a Saturday will be observed on the preceding Friday.

If Christmas Eve falls on a Friday, it will be observed on the previous Thursday. If it falls on a Sunday, it will be observed on the previous Friday.

Every regular employee covered by this Agreement shall be paid holiday pay equal to eight (8) hours at his regular hourly rate, provided that no such holiday payment shall be made (a) if the employee does not work on his last scheduled day of work prior to the holiday and the next scheduled day of work following the holiday unless the day off was pre-approved by the Company in advance of the absence or (b) if the employee is scheduled or required to work on a holiday and fails to work as required or scheduled.

When required to work on one of the foregoing holidays, the employee will be paid the holiday pay in addition to time and one half his regular hourly rate for all hours worked during that holiday.

When any of the above holidays falls on any of the pumping operators scheduled days off in any given work week, he shall be paid eight (8) hours for the holiday at his regular rate. For all hours worked on the above holidays, pumping operators will be paid one and one-half (1 1/2) times his pumping rate.

If a holiday falls on the pumping operators scheduled day off, he will take instead as his scheduled day off the last preceding work day prior to said off days, unless specifically requested by management to work the day prior to the scheduled off day.

Any non-shift employee shall have been deemed to have been scheduled to work on any of said holidays if he has been notified to report for work during his regularly scheduled working hours or before leaving any job continuing past the scheduled closing hours.

Part-time employees shall be paid for each holiday as covered by the above Section, an amount equal to the number of hours scheduled for such part-time employees.

SECTION 31. VACATIONS

(1) Regular full-time and part-time employees who have completed at least six months' of service are eligible for paid vacation time. The vacation year shall be the calendar year beginning January 1 and ending December 31. Vacation is based on years of

service completed in the given year. For example, an employee who reaches five years of service any time during a given year will be eligible for three weeks vacation as of January 1 of that year.

(2) Vacation time may not be carried over from year to year and must be taken in the calendar year in which it is earned. It is not within standard Company policy to pay for vacation not taken.

(3) If a holiday falls during a vacation period, the employee is entitled to an extra vacation day at a time that is mutually agreeable to the employee and the supervisor.

(4) While an employee's preference concerning vacation will be accommodated whenever possible, the timing of the vacation may depend upon the work schedule of the Company. All vacations must be scheduled in advance and approved by the appropriate supervisor. In addition, seniority shall be considered in scheduling vacations.

(5) Vacation pay is computed at the employee's basic straight time hourly rate in effect at the time the vacation is scheduled, excluding shift differential or any other premium, penalty or overtime pay. Regular part-time employees' pay computed on the basis of their regularly scheduled work hours.

(6) For the benefit of employees requiring limited time off for personal business, the Company will allow a maximum of one vacation day to be utilized in no less than one hour increments.

(7) For vacations of less than one (1) week, an employee shall be paid for each day of vacation in an amount equal to his normal basic straight time hourly rate of pay multiplied by the number of normal scheduled hours for that day.

(8) The Company shall, upon receipt of a written request by the employee, pay an employee in advance for the period of his vacation. The employee shall receive his vacation pay on his last scheduled work assignment preceding his vacation period. However, the written request must be made at least two (2) paydays prior to the beginning of the actual vacation period.

(9) Temporary employees shall not be entitled to any vacation benefits.

(10) If an accident or illness occurs during an employee's vacation period, the remaining portion of the vacation cannot be cancelled, except when an employee is hospitalized. The employee shall not be entitled to any additional benefits in the form of sick leave pay for the balance of the vacation period. If an employee becomes entitled to bereavement pay under the Death in Family provision of this contract while on vacation, those dates will be counted toward bereavement and not vacation.

(11) Employees recalled from layoff shall not be entitled to any vacation in the calendar year of recall.

(12) The following vacation schedule shall apply:

SERVICE	VACATION ALLOWANCE
6 months	1 week (must have started by 6/22)
1 year	2 weeks (must have started by 12/13)
2 years	2 weeks and 1 day
3 years	2 weeks and 2 days
4 years	2 weeks and 3 days
5 years	3 weeks
6 years	3 weeks and 1 day
7 years	3 weeks and 1 day
8 years	3 weeks and 2 days
9 years	3 weeks and 2 days
10 years	3 weeks and 3 days
11 years	3 weeks and 4 days
12 years	4 weeks
13 years	4 weeks

14 years	4 weeks
15 years	4 weeks and 1 day
16 years	4 weeks and 1 day
17 years	4 weeks and 2 days
18 years	4 weeks and 2 days
19 years	4 weeks and 3 days
20 years	4 weeks and 3 days
21 years	4 weeks and 4 days
22 years or more	5 weeks

(13) Vacation not taken in the calendar year shall be forfeited unless the failure of the employee to take his vacation is the result of specific request by Management or because of sick leave preventing the scheduling of all or any part of his vacation within the calendar year. If any employee has been required by Management to forego all or any part of his vacation or is unable to take all or part of his vacation due to an illness and the Company does not provide a substitute period before December 31, the vacation maybe carried over to the following year; however, the vacation carried over will be scheduled by the Company in January or immediately upon returning to work from sick leave.

(14) An employee who is laid off, resigns, dies, retires, is discharged or otherwise terminated from employment before taking all or part of the total number of vacation days he was entitled to for that year shall receive vacation pay in accordance with paragraph 5 above for the unused vacation days.

SECTION 32. PERFORMANCE APPRAISALS, COMPANY GIFTS, AWARDS AND INCENTIVE PROGRAMS

The Company may in its discretion establish, abolish, implement and modify a performance appraisal program. Such a program may include, among other things, the discussion of job responsibilities for the purpose of identifying and correcting weaknesses, encouraging and recognizing strengths and discussing positive, purposeful approaches to meeting goals. The purpose of the appraisal is not for disciplinary purposes. The Company also shall have the absolute right to give employees gifts at Christmas, or at any other time of the year, to make awards to employees in recognition of lengthy employment or exceptional performance, or for other reasons; or to install incentive type programs. The Company shall likewise have the right, in its sole discretion, to refrain from granting such gifts, awards, or programs or to discontinue any such practice or policy at any time.

SECTION 33. TEMPORARY ASSIGNMENT

The Company shall have the right to transfer employees temporarily. If regular employees are temporarily transferred from the classification in which they are employed regularly to another classification paying a lower wage, there shall be no reduction in wages; and if employees are temporarily transferred to other jobs or department paying higher hourly wages, they shall receive such higher rates while so employed. The Company may assign employees to perform Supply Operator or Working Foreman duties as needed. Employees will be paid at the higher rate for the period of time assigned to those duties. The General Foreman position will not be filled on a temporary basis by a union employee during vacations, illness or other leave.

SECTION 34. MEAL ALLOWANCES

(1) The Company agrees that when an employee remains at work after completion of his regular work day for unscheduled overtime work, he shall be entitled to a meal at each of the following intervals:

One meal at the end of the first two hours of overtime and one meal at the end of each four-hour work interval thereafter during such overtime work.

(2) The Company agrees that when an employee is called out after leaving for the day or is called out on his off days (except with prior notice), he shall be entitled to a meal at each of the following intervals:

One meal at the end of the first four hours of call-out time and at four hour work intervals thereafter during such work.

(3) If an employee is called into work and works in excess of four (4) consecutive hours, the Company will reimburse that employee up to $10.00 for a meal, at each 4 (four) hour interval so long as the employee presents a receipt for the meal and submits the expenditure in accordance with Company policy. Meal reimbursement will not be provided to employees on scheduled overtime.

(4) Meal allowances will not be provided for employees on scheduled overtime.

SECTION 35. EQUAL EMPLOYMENT OPPORTUNITY

It is recognized by the parties hereto that the Company is an Equal Opportunity Employer whose employment policies and personnel practices are such as to insure that all employees are treated equally and that recruiting, hiring, training and promoting persons in job classifications shall be done without regard to membership in the Union, race, color, religion, sex or national origin; that decisions regarding employment and promotion shall be made so as to further the principles of equal employment opportunity; that all personnel actions, such as compensation, benefits, transfers, layoffs, return from layoff, company-sponsored training, education, tuition assistance, social and recreation programs, will be administered without regard to race, color, religion, sex or national origin.

It is hereby agreed that nothing in this contract shall be so construed as to prevent the Company in any way from adhering strictly to its equal opportunity obligations herein set forth.

In all Sections of this Agreement, any reference to gender shall mean either sex.

The Union agrees that there shall be no discrimination by the Union or its agents against any employee because of his race, color, creed, sex, age or national origin.

SECTION 36. DURATION OF CONTRACT

This Contract shall be binding on the parties hereto, their successors and assigns, from 12:01 A.M. December 1, 2010 to Midnight November 30, 2013, and from year to year thereafter unless at least sixty (60) days before November 30, 2013 or any succeeding November 30, the Company or the Union serves written notice on the other party of its desire to change or terminate the Contract.

It is acknowledged and agreed that during the course of the negotiations preceding the execution of this Agreement on matters and issues of interest to the Union, to the Employees and to the Employer pertaining to wages, hours and conditions of employment have been fully considered and negotiated, that each party was afforded the unrestricted right to pursue and discuss proposals pertaining to wages, hours and conditions of employment, and that the understandings and agreements arrived at by the parties during the course of said negotiations are fully set forth in this Agreement.

APPENDIX A

Memorandum of Agreement
Effective August 1, 2010

This Agreement is made and entered into this 1st day of August, 2010, by and between Aquarion Water Company (the "Company") and Utility Workers of America, A.F.L.-C.I.O, Local No. 384 and United Steelworkers of America, A.F.L.-C.I.O., Local Nos. 8938, 13492, and 2936 (the "Unions") and expires July 31, 2013.

The following changes to the benefit plans maintained by the Company for its union employees covered by these benefit plans have been agreed upon by the members of the Benefits Committee. This agreement is subject to ratification by the Unions.

Medical Plan

Options. The Company shall offer three Open Access medical plan options (a "high" plan and a "low" plan, both currently administered by CIGNA as well as a Health Reimbursement Account (HRA)), in accordance with the terms of the CIGNA plan document, at different Employee premium contribution levels, as described herein, except that for employees in Massachusetts and New Hampshire effective February 1, 2011, the Company shall offer only the Tufts Health Care "high" plan, in accordance with the terms of the Tufts plan document. The Tufts plan specifies a $500 individual/$1,000 family deductible. The Company agrees to reimburse employees for out of pocket deductible expenses that exceed $250 dollars for individual and $500 for the family deductible (the first $250 individual and $500 family deductible must be paid by the employee). Proof of payment (Explanation of Benefits) must be submitted to the Human Resources department to substantiate the reimbursement of the expense. Maximum reimbursement may not exceed $250 for individual and $500 per family.

As set forth in and subject to the plan documents, each of the medical plans offered by the Company shall include prescription drug coverage and vision plan benefits (see below). See Attachment A for specific coverage information under the "high" plan option currently administered by Cigna, Attachment B for specific coverage information under the "low" plan option currently administered by Cigna, Attachment C for specific coverage information under the "HRA" plan option currently administered by Cigna and Attachment D for specific coverage information for the Tufts Plan.

Dental Plan

Options. The Company currently offers one dental plan option. Plan design options, which are set forth in and subject to plan documents, are summarized below. See Attachment E for specific coverage information.

	Incentive Dental PPO	Dental HMO
Deductible	$50 individual, $150 family (waived on preventive)	$0
Annual maximum benefit	$1,150 per person	None
Lifetime orthodontia	$1,750 per person	None
	In-network Coverage	
Preventive benefits	100%	100%
Minor restorative	90%	100%
Major restorative	60%	60%

Orthodontia	50%	50%
	Out-of-network Coverage	
Preventive benefits	100%	None
Minor restorative	80%	None
Major restorative and orthodontia	50%	None

Effective January 1, 2011, the below listed weekly employee premium contributions for dental coverage are effective through December 31, 2011.

2011 Rates				
Period	Employee Only	Employee + Child/Children	Employee + Spouse	Family
2011	$1.27	$2.38	$2.38	$4.00
2012	$1.40	$2.61	$2.61	$4.40
2013	$1.53	$2.85	$2.85	$4.81

Prescription Plan

Prescription Coverage – The Medical Plans currently offered by the Company include prescription coverage at no additional Employee premium contribution. As set forth in and subject to the plan documents, coverage levels and applicable Employee co-pays follow "high", "low", HRA and Tufts plan options as set forth in Attachments A, B, C and D.

Vision Plan

Vision Coverage – The Medical Plans currently offered by the Company include vision coverage, as set forth in and subject to the plan documents (see Attachment F), at no additional Employee premium contribution, although employee co-pays may apply.

Employee Premium Contributions

Effective January 1, 2011, employees will contribute 9% of the costs of the medical plan (which includes prescription and vision benefits) for the "high" plan option, 8.5% for the "low" plan option and 8.5% for the HRA Plan Option. The below listed weekly Employee premium contributions for medical coverage, which includes vision and prescription coverage, and dental plans are effective through December 31, 2011. At the beginning of each subsequent calendar year (January 1, 2012 and January 1, 2013) employees will contribute 9% and 10% respectively for the "high" plan option and 8.5% and 9.5% for the "low" plan and HRA option.

Weekly Employee Premium – "High" Plan (CIGNA)

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	$10.95	$18.62	$20.48	$34.39

Weekly Employee Premium – "Low" Plan (CIGNA)

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	$9.85	$16.75	$18.43	$30.94

Weekly Employee Premium – "HRA" Plan (CIGNA)

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	$8.86	$15.90	$17.88	$26.47

Weekly Employee Premium – "High" Plan (Tufts)

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	$12.21	$24.43	$31.75	$38.72

Weekly Opt Out Payback

Employees who opt out of the following insurance coverages will receive the following opt out incentive each week, depending on the individual election (note that opting out of "medical only" means an employee has opted out of medical, prescription and vision benefits).

Plan	Employee Only	Employee + 1	Employee + 2 or More
Medical Only	$14.49	$21.31	$37.30
Dental Only	$1.61	$2.37	$4.14
Med + Dental	$16.10	$23.68	$41.44

Employees who opt out may do so only during open enrollment each year and to be eligible must both provide current proof of other insurance from a source other than the Company and execute a waiver form provided by the Company. The proof shall evidence coverage for at least the Employee, and, if the Employee seeks an "Opt Out Payback" for a greater level of coverage, the proof shall also include evidence of coverage for those individuals, who may also be required to execute the waiver form. Employees shall receive the weekly payment only for the period for which they have provided proof of coverage at the applicable level. Employees who lose coverage at any time during the year may elect to immediately begin receiving benefits once again under the medical or dental programs; their opt out payback will be suspended or reduced, depending on the elected coverage. An employee who opts out of insurance and subsequently enrolls will be responsible for the corresponding required premium contribution.

Retiree Life & Medical Insurance

Retiree Life: For the term of this Agreement: Employees hired prior to August 1, 2005 will continue to be provided with a $10,000 life insurance benefit upon retirement. Employees hired on or after August 1, 2005 will instead be provided with a $6,000 death benefit payable from the pension plan. Current employees who are eligible to receive the $10,000 retiree life benefit at retirement, will not be eligible to receive the $6,000 death benefit in addition to, or in lieu of, the $10,000 retiree life benefit.

Retiree Medical: For the term of this Agreement: Current Employees who were hired prior to August 1, 2005 will be eligible for retiree medical, dental, prescription and vision insurance coverage as set forth below and with the Retiree premium contributions set forth below. Current Employees hired on or after August 1, 2005 will not be entitled to company-paid retiree medical, dental, prescription or vision plan coverage. Eligible Retirees under the age of 65 will be covered under the same medical, dental, prescription and vision plan design as applies to then active employees with the same medical premium contribution requirements. For eligible retirees at or over the age of 65, a Medicare supplement plan, as more fully described in the plan documents, applies, subject to compliance with applicable law (see Medicare Supplement Plan Design below).

Medicare Supplement Plan Design for Retirees At or Over Age 65

Deductible: $200 individual, $400 family
Coinsurance out-of-pocket maximum: $750 individual, $1,500 family, excluding deductible
Retiree pays 20% after deductible for medical services as outlined in the summary plan description
Prescription coverage: $10 co-pay for generic, $25 for preferred brand name and $40 for non-preferred brand name; $20 co-pay for mail order generic 90 day supply, $50 co-pay for mail order preferred brand name 90 day supply and $80 for mail order non-preferred brand name 90 day supply.

For the term of this Agreement: Current retirees (those individuals who retired on or before August 1, 2005) who pay a premium for medical coverage continue at the same premium contribution formula as established when they retired.

For the term of this Agreement: Current Employees who were hired prior to August 1, 2005 and who are under the age of 65, as well as their spouses and other dependents who are under the age of 65, shall make the same premium contribution required for an active employee for retiree medical, dental, prescription and vision coverage.

Upon retirement, current Employees who were hired prior to August 1, 2005 and who are at or over the age of 65 shall pay $26 per month for individual retiree coverage and $26 for coverage of the spouse at or over the age of 65 (for a total of $52 per month for an employee and spouse who are both over the age of 65). In the event a retiree is under the age of 65 and their spouse is over the age of 65, the monthly premium required will be $26 for the individual at or over 65 plus $47.45 for the individual under age 65, for a total of $73.45 per month (retirees under age 65 contribute the same premium as active employees at the time of retirement). Effective January 1, 2013, the monthly contribution for retireees over the age of 65 will be $30 per covered member per month.

Active Life Insurance Coverage

Company-paid life insurance and accidental death and dismemberment is increased to 2x base pay, rounded up to next $1,000. Employees may be required to pay taxes on the value of the benefit in excess of $50,000 in accordance with the Internal Revenue Code and according to rates established by the IRS. Portable voluntary life insurance for employee and other dependents continue.

Pension Plan

Retirement Plan for Employees of Aquarion Company ("Retirement Plan") – Employees hired prior to August 1, 2010 will continue to accrue pension benefits under the formula established the Retiremetn Plan for Employees of Aquarion Company. Union employees hired on or after August 1, 2010 will not be eligible for this benefit.

Savings & Investment Plan

Employees hired prior to August 1, 2010 will be eligible to continue to participate in the Savings Plan for Employees of Aquarion Water Company ("Savings Plan") at the Company match level of 75 cents for each dollar contributed up to 6% on eligible compensation (base wages, all overtime, and other compensation not excluded under the eligible compensation definition. Employees hired on or after August 1, 2010 will receive Company matching contributions at the Company match level of $1.00 dollar for each dollar contributed up to 6% on eligible compensation (base wages, all overtime, and other compensation not excluded under the eligible compensation definition.

Employee Assistance Program

Counseling services program will be provided to all regular full-time union employees.

Educational Assistance Program

As provided in more detail in the Aquarion Water Company Education Assistance policy, the Company shall reimburse employees annually the first $3,000 of educational expenses plus 80% of the next $3,000 of such expenses (a maximum of $5,400 per year) so long as the Company has, in its discretion, pre-approved the expenses and the Employee receives a grade of "C" or better. Reimbursement may be made upon proper submission to Human Resources of proof of payment and transcript with final grade of "C" or better.

Sick Days and Sick Leave

Employee will receive five (5) sick days for each calendar year beginning January 1, 2011. In addition, union employees may utilize up to five (5) banked sick days (if available) per calendar year through 12/31/2013. Banked sick days above the five (5) allowed for regular sick time, may only be used in coordination with short term disability benefits.

Employees will also be entitled to participate in the Company's short-term disability program, which provides income replacement for the first twenty-six (26) weeks of disability. This short-term disability program will be coordinated with an employee's banked sick days as follows: employees who are disabled in accordance with the terms of the short-term disability program will first use their banked sick days to receive one-hundred percent (100%) of pay for their leave and only after all of their available banked sick days have been used will the employees begin leave under the short-term disability program; provided, however, that the total amount of leave available from banked sick days and the short-term disability program will not exceed twenty-six (26) weeks in the aggregate. For

Physical Fitness Reimbursement

As provided in more detail in the Aquarion Water Company Physical Fitness Reimbursement policy and as approved by Human Resources, in its discretion, an employee may receive reimbursement of 75% of the cost up to $200 per calendar year, which is taxable in accordance with the Internal Revenue Code, to join a fitness facility, take physical fitness classes (such as yoga or aerobics) or the like, but shall not cover the purchase of physical fitness equipment. Employee submits proof of payment to the Human Resources department for reimbursement through payroll.

Educational/Environmental Matching Gift Program

The Company provides a 100% match, up to $2,500 per calendar year, to employee gifts to accredited colleges, universities, and pre-approved environmental organizations. The Employee must submit proof of payment with the required gift form to Human Resources for processing.

Silliman Scholarship Competition

In its discretion, the Company sponsors a scholarship competition for children of employees who are graduating high school seniors. Students compete for a $10,000 scholarship ($2,500 per year), and one scholarship is awarded each Summer.

Perfect Attendance Reward (PAR) Program

The Company provides a monetary award to employees who have not missed time at work during a calendar year. Absences on account of an approved vacation, for jury duty or that are covered by Federal or State Statutory Family/Medical Leave Acts (unpaid, approved leaves under FMLA) do not adversely impact PAR eligibility. The schedule of gift certificate values are listed below.