STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

April 18, 2013 - 10:05 a.m.
Concord, New Hampshire

RE: **DW 12-170**
HAMPSTEAD AREA WATER COMPANY:
Notice of Intent to File Rate Schedules.
(Hearing on permanent rates)

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

Clare Howard-Pike, Clerk

APPEARANCES: **Reptg. Hampstead Area Water Company, Inc.:**
Robert C. Levine, Esq.

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

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

I N D E X

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
4	Testimony of John Sullivan, with attachments (12-28-12)	10
5	Settlement Agreement regarding the Permanent Rate Proceeding in DW 12-170, with attachments (04-12-13)	14
6	Final Audit Report from Karen Moran and Robyn Descoteau regarding the DW 12-170 Rate Adjustment Filing (01-11-13)	14

P R O C E E D I N G

CHAIRMAN IGNATIUS: I'd like to open the hearing this morning in Docket DW 12-170, which is Hampstead Area Water Company's permanent rate request. And, I understand that we are trying out a new system of a audio and video streaming for Commission hearings. It's not live, it's being done as a trial today. So, nobody is being broadcast. But it's -- but we appreciate everyone helping us figuring out how it works. This is our first run through.

I understand there's a Settlement Agreement that's been proposed in this case that we'll be hearing this morning. Let's begin first with appearances.

MR. LEVINE: Good morning, Commissioners. I'm Attorney Robert Levine, here to represent Hampstead Area Water Company. With me is our expert consultant Steve St. Cyr; also present is Harold Morse, President of the Company; John Sullivan, our Controller; and Chris Lewis Morse, the Vice President of the Company. Thank you.

CHAIRMAN IGNATIUS: Good morning.

MS. MORSE: Good morning.

MS. BROWN: Good morning, Commissioners. Marcia Brown, on behalf of Staff. And, with me today is

Mark Naylor, Jayson Laflamme, and Robyn Descoteau. And, it is Jayson Laflamme, Mark Naylor, and Steve St. Cyr that collectively we propose as witnesses to present the Settlement Agreement today.

CHAIRMAN IGNATIUS: Good morning. And, thank you for the witness identification. Are there any matters to take up before we begin with evidence?

(No verbal response)

CHAIRMAN IGNATIUS: Seeing nothing, then why don't the three of you take your seats.

MS. BROWN: Chairman Ignatius, while they are taking their seats, it is Staff's expectation that, because we had hearings **[**exhibits**?]** marked during the temporary rate hearing, that we would be picking up with Exhibit 4 with the Settlement Agreement and a couple of other documents.

CHAIRMAN IGNATIUS: Thank you.

(Whereupon ***Stephen P. St. Cyr***, ***Mark A. Naylor***, and ***Jayson P. Laflamme*** were duly sworn by the Court Reporter.)

MR. LEVINE: With the leave of the Commissioners, I'd like to address my questions to Mr. St. Cyr.

CHAIRMAN IGNATIUS: That's fine. Please

proceed.

STEPHEN P. ST. CYR, SWORN

MARK A. NAYLOR, SWORN

JAYSON P. LAFLAMME, SWORN

DIRECT EXAMINATION

BY MR. LEVINE:

Q. Mr. St. Cyr, will you please state your name and business address.

A. (St. Cyr) My name is Stephen P. St. Cyr. And, the business address is 17 Sky Oaks Drive, Biddeford, Maine.

Q. And, what is the business name of your company?

A. (St. Cyr) Stephen P. St. Cyr & Associates.

Q. And, can you describe the services that your company offers?

A. (St. Cyr) The company offers accounting, tax, regulatory, and management services.

Q. And, what do you consider to be your area of expertise?

A. (St. Cyr) I consider those same items as my area of expertise.

Q. And, what services has your company provided to Hampstead Area Water Company?

A. (St. Cyr) The company specifically provides year-end services. We review the financial statements, and help

the Company finalize those financial statements. We prepare the PUC annual report and the tax returns. And, I also assist in financings and rate cases, such as this one.
Q. All right. And, prior to today, have you ever testified before this Commission?
A. (St. Cyr) Yes, I have.
Q. And, has that prior testimony been within your area of expertise?
A. (St. Cyr) Yes.
Q. And, the services that you provide to Hampstead Area Water Company, are those also within your area of expertise?
A. (St. Cyr) Yes, they are.
Q. Can you please describe your involvement in this docket?
A. (St. Cyr) My involvement in this docket would have begun with the planning of the filing, the preparation of the filing. I would have responded to some data requests and review other company responses, been involved in the preparation of the temporary and permanent settlement agreements.
Q. And, you've reviewed -- excuse me. Can you describe the documents that you've prepared in this docket?

A. (St. Cyr) I would have specifically prepared the financing, the rate case schedules, and the testimony related to it, and would have been involved in some review and oversight of other aspects of the filing.
Q. Of the documents that have been submitted to the Commission in this docket, did you review the testimony of Mr. John Sullivan that was filed with the Commission on December 28th, 2012?
A. (St. Cyr) Yes, I did.
Q. All right. Also, did you participate in the drafting of the Settlement Agreement and its schedules that were attached?
A. (St. Cyr) Yes.
Q. And, did some of those schedules draw upon the information contained in Mr. Sullivan's prefiled testimony?
A. (St. Cyr) Yes, they did.
Q. I'd like to ask you to identify this document.
(Atty. Levine handing document to Witness St. Cyr.)

BY THE WITNESS:

A. (St. Cyr) This is the prefiled testimony of John Sullivan in DW 12-170.

BY MR. LEVINE:

Q. And, are there any attachments to that testimony?

A. (St. Cyr) Yes, there are. There's Exhibit 2 and Exhibit 3, and Exhibit 4.

Q. And, what do those exhibits pertain to?

A. (St. Cyr) They specifically -- they pertain to the testimony, but it's specifically related to the addition of a employee to the Hampstead Area Water Company staff, and then some depreciation schedules as it pertains to Black Rock and Fairfield.

MR. LEVINE: Thank you. Commissioner Ignatius, I'd like to ask that these be marked for identification.

CHAIRMAN IGNATIUS: And, let's go through them one by one, if they're being done -- I assume they're not being done as a group, but individually?

MR. LEVINE: Oh, no. It's just the singular schedule, and these are the copies.

CHAIRMAN IGNATIUS: All right. So, this would be -- are we marking the Settlement Agreement as "Exhibit 4"?

MS. BROWN: It doesn't matter. I thought, if we're introducing the testimony now, it would be the next in sequence, as number "4".

CHAIRMAN IGNATIUS: All right.

MS. BROWN: Doesn't matter to us.

CHAIRMAN IGNATIUS: That's fine. So, this is the testimony --

MR. LEVINE: Of John Sullivan.

CHAIRMAN IGNATIUS: Dated? What is the date?

MS. BROWN: I believe it's December 28th, 2012.

CHAIRMAN IGNATIUS: Thank you.

MR. LEVINE: Yes.

CHAIRMAN IGNATIUS: All right. So, we'll mark that for identification as "Exhibit 4". And, that contains attachments to it, but they're not being separately marked?

MR. LEVINE: Correct. It's all one document.

CHAIRMAN IGNATIUS: Thank you.

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

MR. LEVINE: I have no further questions at this time of Mr. St. Cyr.

CHAIRMAN IGNATIUS: All right.

BY MS. BROWN:

Q. Mr. Naylor, I'd like to have you state your name and position with the Commission for the record please.

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

Q. And, as the Director, can you please describe your responsibilities?

A. (Naylor) Yes. I'm responsible for the Staff work product in the Gas and Water Division, including reviewing dockets and providing Staff recommendations, testimony, and so forth.

Q. And, can you please describe what your area of expertise is?

A. (Naylor) Yes. Accounting.

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

A. (Naylor) Yes. I have reviewed the filings provided by the Company in this docket, reviewed the discovery materials generated, reviewed the Audit Report developed by Commission Staff, and participated in the development of the Settlement Agreement that is being presented today.

Q. Is the testimony you're going to provide today going to be within your area of expertise?

A. (Naylor) Yes, it is.
Q. Mr. Laflamme, can I please have you state your name and position for the record?
A. (Laflamme) My name is Jayson Laflamme. I am an Analyst with the New Hampshire Public Utilities Commission, in the Gas and Water Division.
Q. And, Mr. Laflamme, can you please describe what your area of expertise is?
A. (Laflamme) Accounting and finance.
Q. And, can you please describe your involvement with this docket?
A. (Laflamme) Yes. I reviewed the filings in this docket that were made by the Company. In conjunction with that, I reviewed the annual reports that have been recently filed with the Commission by the Company. I participated in submitting discovery and reviewing the discovery responses. I also reviewed the Audit Report that was submitted by the NHPUC Audit Staff in this case.
Q. And, Mr. Laflamme, will the testimony that you're offering today be within your area of expertise?
A. (Laflamme) Yes, it will.

MS. BROWN: Okay. I'd like to show -- have the witnesses identify some documents.

CHAIRMAN IGNATIUS: That's fine.

(Atty. Brown handing documents to Witness Naylor and Witness Laflamme.)

BY MS. BROWN:

Q. Mr. Naylor, can you please identify for the record this document?

A. (Naylor) Yes. This is a Settlement Agreement filed with the Commission in this docket, and executed by Staff and the Hampstead Area Water Company, dated April 12th, 2013.

Q. And, another, the second document, if you could identify this for the record.

A. (Naylor) This is the Commission Staff's Audit Report, with respect to Hampstead Area Water Company. And, this document was dated January 11th, 2013.

Q. And, I'll start with Mr. Laflamme. Of those two documents, are those the documents that you reviewed in your work with this docket?

A. (Laflamme) Yes.

Q. And, Mr. Naylor, the same question to you?

A. (Naylor) Yes.

Q. And, Mr. St. Cyr, are you familiar with these two documents?

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

MS. BROWN: Okay. I'd like to have the first document, which was the Settlement Agreement that Mr. Naylor described, marked for identification as "Exhibit 5".

CHAIRMAN IGNATIUS: So marked.

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

MS. BROWN: And, the next, the second document Mr. Naylor described was the Audit Report, I'd like to have that marked for identification as "Exhibit 6".

CHAIRMAN IGNATIUS: And, it looks like you have copies for everyone?

MS. BROWN: Yes.

CHAIRMAN IGNATIUS: So marked. I assume there's no objection from the Company?

MR. LEVINE: No objection.

(The document, as described, was herewith marked as **Exhibit 6** for identification.)

(Atty. Brown distributing documents.)

CHAIRMAN IGNATIUS: I'm sorry, I thought that was the Audit Report. We actually have -- we have the Settlement Agreement. And, in the future, there's no need to make additional copies of testimony and settlement agreements.

MS. BROWN: Pursuant to the Administrative Rules, we are supposed to sequentially number our exhibits. So, the Settlement Agreement was sequentially numbered in our attempt to comply with that. But, yes. We'll try to do that ahead of time next time, so we both reduce paper and accurately have the exhibits sequentially numbered.

BY MS. BROWN:

Q. So, with that, Mr. St. Cyr, could you please describe what the test year is that the Company was using in its rate case?

A. (St. Cyr) The test year was 2011.

Q. And, Mr. St. Cyr, if I could have you -- I'm sorry, "Mr. St. Cyr". I mean "Mr. Laflamme". If I could have you turn to Exhibit 6, the Settlement Agreement. And, --

CHAIRMAN IGNATIUS: I'm sorry, is that -- that's "Exhibit 5", isn't it?

MS. BROWN: Okay. I may have misspoken. Did I have the Settlement Agreement as "5" and the -- thank you for the correction.

BY MS. BROWN:

Q. Mr. Laflamme, if I could have you turn to the Settlement Agreement, and turn to Page 4, in the "Revenue" section. And, can you please describe the revenue requirement that Staff and the Company are agreeing to?

A. (Laflamme) Yes. The Settling Parties have agreed to an overall revenue requirement of $1,595,961, based on Hampstead Area Water Company's 2011 test year. The revenue requirement consists of $1,528,082 in annual water sales and $67,879 in Other Operating Revenues. And, that can be viewed on Settlement Attachment A, Schedule 4, Column (10), which is --

Q. Could you repeat the page cite again.

A. (Laflamme) Yes. Settlement Attachment A, Schedule 4, Column (10), which is Page 30 to the Settlement Agreement.

CMSR. HARRINGTON: Do you have page numbers?

MS. BROWN: I heard one of the Commissioners ask "which page?" It's the page -- Page 30 is right after the only large folded page.

CMSR. HARRINGTON: No. The original version of the Settlement Agreement didn't have page numbers on it.

MS. BROWN: Yes. My mistake. I will correct that next time. Thank you.

BY MS. BROWN:

Q. Mr. Laflamme, there were certain adjustments to both the rate base and operating revenue, and also operating expenses. Could you highlight some of the major adjustments?

A. (Laflamme) Sure. For rate base, it would probably be helpful to turn to Settlement Attachment A, Schedule 2, which is Page 13 to the Settlement Agreement. And, in that, the Parties have agreed to a rate base amount of $4,997,601. The detail of the adjustments that were made to -- agreed to by the Settling Parties and made to rate base appear on Settlement Attachment A, Schedule 2a, which goes from Page 14 through Page 17 of the Settlement Agreement. And, then, I would suggest that for next -- for a overview of those adjustments, I would suggest that you turn to Settlement Attachment A, starting on Schedule 2b, which is Page 18. And, I can give an overview of the adjustments that were made.

Q. If you could please. And, I also wanted an explanation, if you could. There was a change to the 13-month average versus the 5-quarter average as well.

A. (Laflamme) Yes.

Q. Thank you.

A. (Laflamme) Yes. And, that is -- that particular adjustment is found on Schedule 2b of Attachment A. And, the explanation for this adjustment is that, when the Company submitted their filing last year, they used a 5-quarter average in the determination of the rate base. During the course of the case, it was determined that the Company had the capability of producing monthly financial statements, and they produced monthly financial statements during the test year. So, in order to be -- have a more precise rendering of average rate base, there was a recalculation of average rate base using a 13-month average, as opposed to the 5-quarter average originally proposed by the Company.

Q. Thank you. Did you have any other adjustments to rate base that you felt were significant that you wanted to highlight?

A. (Laflamme) Yes. If you could turn next to Schedule 2c, and there is a calculation of proforma adjustments for non-revenue producing assets.

CMSR. HARRINGTON: Could you give us a page number please?

WITNESS LAFLAMME: That is Page 19, 19

and 20.

BY THE WITNESS:

A. (Laflamme) And, the explanation for this adjustment is, when the Company submitted their original filing, they proposed to use a year-end -- the year-end amount for net plant in service, including plant accumulated depreciation and contributions in aid of construction. Staff proposed that there should be an adjustment to this, and that only those assets deemed as "non-revenue producing" should be reflected at their year-end amount, and the remainder of the plant in service should be reflected at test year average as per traditional ratemaking.

So, in the course of doing that, the Staff and the Company agreed to two particular projects that were done by the Company during the test year. And, that was -- the first one was at the Company's Lancaster Farm system. There was a well failure at that particular system. And, in order to make up for the failed well, the Company placed a new well and pump house at its Lancaster Farm system. The other project was called the "Pope Road Project". And, it was for the emplacement of new wells and a pump house at this -- at that particular point in the Company's system.

The Parties agreed that these two projects met the criteria for non-revenue producing asset treatment. Those being that they were the result of an actual or anticipated regulatory mandate, either by DES or the PUC. That the acquisition or construction of those projects did not result -- did not directly result in an increase in revenues for the Company. Thirdly, that the Parties felt that the dollar magnitude of those projects was significant enough that non-revenue producing asset treatment was appropriate. And, fourthly, those assets were deemed to be in service and used and useful.

BY MS. BROWN:

Q. Thank you. Mr. St. Cyr, do you have any other comments to add to the explanations of the adjustments that Mr. Laflamme discussed?

A. (St. Cyr) I do not.

Q. Okay.

CMSR. SCOTT: Excuse me. While we're on -- still on Page 19, I had a quick question, a few clarifications. The annotation regarding "USA Blue Book", could you just explain that real quickly before we leave that?

CMSR. HARRINGTON: Actually, it's on 20,

I believe.

CMSR. SCOTT: And 19.

CMSR. HARRINGTON: Oh, it's on 19, too? Yes.

WITNESS LAFLAMME: I believe that those were small -- those were items that were part of the bigger project that were purchased from a vendor. And, I believe the name of the vendor is "USA Bluebook".

CMSR. HARRINGTON: Oh.

WITNESS LAFLAMME: If --

MR. LEVINE: Correct.

WITNESS LAFLAMME: I'll turn to Mr. St. Cyr.

WITNESS ST. CYR: That's correct.

WITNESS LAFLAMME: Okay.

CMSR. SCOTT: Thank you. I thought "Blue Book" was some reference that I was supposed to know what it meant. So, thank you very much.

WITNESS LAFLAMME: I do have other explanations for rate base, if you would --

MS. BROWN: I didn't mean to cut you off.

WITNESS LAFLAMME: Okay.

BY THE WITNESS:

A. (Laflamme) The third significant adjustment would be found on Page 21 of the Agreement. And, that is identified as "Schedule 2d", and has to do with an excess capacity adjustment that was made to primarily the Company's rate base. If you turn to Page 22, you'll see a listing of the Company's systems, with columns indicating the number of customers within those systems, and comparing those to the anticipated build-out. There is a box, a shaded box, which contains six systems where Staff and the Company have agreed that those particular systems, the number of customers at the end of the test year was significantly less than the anticipated build-out. And, therefore, it was felt that an adjustment was necessary, primarily to rate base, in order to reflect the fact that those particular systems -- that the number of customers in those particular systems were less than the anticipated build-out. So, based on that analysis, net plant in service was reduced in order to adjust for that excess capacity in those systems.

The next adjustment, on Pages 23, 24, 25, and 26, they stem from an audit find contained in the Audit Report dated January 11th of this year. And, the basis of that was that, for the -- the Company, in a number of cases, was depreciating its transmission and distribution mains at a depreciation percentage higher than previously agreed to between the Staff and the Company. More precisely, in a number of cases, the Company was depreciating mains over 45 years, as opposed to 50 years. And, so, the purpose of the adjustments stemming from these schedules was to correct that, to make sure that accumulated depreciation and depreciation expense, as well as amortization of CIAC, represented a 50-year depreciation life for all the assets identified as transmission and distribution mains.

And, lastly, on Page 27, identified as "Schedule 2g", is an analysis of the deferred assets, deferred assets for Hampstead Area Water Company, and just provides the support for some adjustments that were made to that particular rate base component. And, that's it.

BY MS. BROWN:

Q. Mr. St. Cyr, do you have any -- I'd like to check back with the Company, friendly cross, I guess. Do you have anything to add to Mr. Laflamme's explanation?

A. (St. Cyr) I do not. He did a very nice job explaining those adjustments.

Q. Thank you. I'd like to move on to the next section of the Settlement Agreement, which was the Affiliate Agreement. And, Mr. Laflamme, were expenses relating to the Affiliate Agreement included in the calculation of the revenue requirement?
A. (Laflamme) Yes.
Q. And, can you please explain who are the parties of the Affiliate Agreement?
A. (Laflamme) The Affiliate Agreement, which is found as Attachment D to the Settlement Agreement, on Page 50, starting, the parties to the Affiliate Agreement are Hampstead Area Water Company and its affiliate, Lewis Builders Development, Incorporated.
Q. And, can you please summarize what services are provided under this Agreement?
A. (Laflamme) The Agreement covers services provided by Lewis Builders to Hampstead Area Water Company. There's also a rental component, office supplies, labor burden, overhead expense, and billing procedures and content encompassed within the Agreement.
Q. Mr. Laflamme, do you have an opinion as to the reasonableness of the expenses that are included in this management agreement? And, what I'm looking at are -- is Schedule B to the Agreement, it has a list of

rental, labor figures?

A. (Laflamme) Yes. The only difference between the Agreement that's attached to the Settlement Agreement and the Agreement that was actually in place during the -- during the test year was that there was a $10,000 increase, which was in the Agreement, which was -- which was a part of this new Agreement here. So, the Audit Staff reviewed that Agreement during its examination. And, Staff is of the opinion that the $10,000 increase that's proposed by the Company is reasonable as well.

Q. Does -- I'm sorry, I didn't mean to cut you off. Does Lewis Builders -- Has Lewis Builders provided services to Hampstead Area Water Company under a management agreement in prior rate cases that you've reviewed?

A. (Laflamme) Yes.

Q. And, were you indicating that, while the $10,000 change was a change from the test year, but do you have any opinion as to how this has changed in its prior agreements between Lewis Builder and Hampstead?

A. (Laflamme) I believe, as far as recent rate cases go, that that's really the only change. The only change from recent rate cases is the $10,000 increase proposed by the Company and reflected in the schedules to the

Settlement Agreement.

Q. Mr. Naylor, I don't want to leave you out of this, but do you have any other comment to add on the Affiliate Agreement?

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

Q. And, Mr. St. Cyr, do you have anything else you'd like to opine on on this Affiliate Agreement?

A. (St. Cyr) I would just add that the Company is fortunate to have Lewis Builders Development Company as an affiliate, and the services that they bring, including management, accounting, legal, and engineering. And, it's more than just and reasonable.

Q. And, when you say "fortunate", can you please elaborate?

A. (St. Cyr) This is a company that relies on Lewis Builders for the overall management, and then brings the expertise of other accounting, legal, and engineering services that the Company itself doesn't have.

Q. I'd like to next go to the "Step Increase" section of the Settlement Agreement. And, Mr. Naylor, I had a few questions for you on this. Can you please describe the projects that are included in the first step increase?

A. (Naylor) Yes. The first step increase is detailed in the text of the Agreement, beginning on Page 5, and the schedules, which provide additional detail, are included on Attachment B, Schedules 2 and 3, which begin at Page 39 of the Settlement. And, essentially, as detailed in the text, there are a number of service line replacements included in this step adjustment. The Company has been undertaking a leak detection program for some time now. Lost water has been an issue with the Company, and the Commission has heard testimony with respect to lost water in previous dockets with Hampstead. So, in addition to leak detection programs, the Company has also been replacing service lines that is part of this step adjustment. And, as detailed in the Settlement Agreement, they have expended, to be recovered in this first step adjustment, just over $142,000 for service line replacements.

In addition to that, this first step adjustment provides for recovery of improvements to the Company's water storage facility in Atkinson, also includes meter installations and filter replacements, other service and main improvements, and the replacement of a service vehicle. In total, these capital additions for the first step adjustment amount to just over $288,000.

This step adjustment also provides for the recovery of the costs of well exploration on West Side Drive, in Atkinson. And, these costs were incurred as a result of the Company's water exploration efforts. And, although this source did not prove to be a reliable source of water, the Settling Parties have agreed that the Company's investment in this exploration was prudent. And, therefore, we have provided for the amortization of the costs related to that well exploration over a 20-year period.

So, that is a summary of the capital items that are included in this step adjustment.

Q. Thank you. Is there a rate impact proposed with Step 1?

A. (Naylor) Yes, there is. And, of course, you'll see that on Page 38 of the Agreement. And, the calculation on that page illustrates how we've arrived at the proposed increase in rates to cover these capital items. And, it results in a revenue -- a rate increase of about 1.81 percent.

Q. Thank you, Mr. Naylor. Could you please describe, the Settlement Agreement provides a second step, could you please describe the mechanics of that?

A. (Naylor) Yes. As was noted earlier, the rate increase called for in this Agreement is based on a 2011 test year. The capital spending that I just described related to the first step adjustment is certain capital additions placed in service in 2012. The second step adjustment, which is described beginning on Page 7 of the Agreement, is primarily for continuation of the Company's Service Line Replacement Program. And, these are anticipated to be placed in service during this year, during 2013.

The Company has been active in securing State Revolving Loan funds, and will be using a substantial amount of SRF monies for this program. So, it's a significantly lower cost. So, we agreed that a second step adjustment for recovery of these planned expenditures is appropriate. The total additions to the Company's rate case during 2013 is anticipated to be about $142,000.

Now, we've built into the Agreement a certain provision that will test the Company's earnings before a step adjustment is considered, and that's described on Page 7 of the Agreement. The Company has the right under this Agreement, if approved by the Commission, to seek approval on or after November 1st of 2013 for this second step adjustment. And, that's the -- the step adjustment will be subject to an analysis of the Company's earnings measured for the 12 months ended September 30th of 2013. So, we will review and the Company will review its 12 months' worth of earnings beginning October 1 of '12, and extending through September '13, to see if a further step adjustment in rates is warranted. Now, depending on what that analysis reveals, if the Company is earning its authorized rate of return, as measured in this step -- in this Settlement Agreement, of course, then they would not file for a step adjustment, because their earnings will be deemed to be adequate. And, this, as I indicated earlier, is described fairly clearly on Page 7.

If the Company's measurement of their earnings as of September 30th shows a level of revenue deficiency, then they will be permitted to file for that step adjustment, but only up to the level of their then measured revenue deficiency. So, this provides for recovery of the Company's investments during 2013, the specific investments we've detailed here, which is primarily service line replacement, and protects customers from simply implementing a step adjustment without regard to what the Company's earnings are at that point.

So, we believe that this is a fair way to permit the Company to seek recovery of investments this year, but also protect customers from rate increases which may not be fully warranted.

Q. Mr. Naylor, if the Company makes a filing for the second step increase, will there be an audit or some kind of audit performed on the filing?

A. (Naylor) Yes, certainly. The Company, as I indicated earlier, is permitted to make a filing on or after November 1st of this year. In addition to the review that we, at Gas & Water Division, would perform, we would also be asking the Audit Staff to look specifically at the plant records that are produced from these investments, to verify them for accuracy. So, what we have included in the Agreement here, and I believe that's Attachment C to the Agreement, and that begins on Page 44 of the schedules. These are all estimates, of course, and all subject to the Company's actual filing, the actual costs they incur, and subject to final review by the Audit Staff. But, if they -- if their earnings are below a level which would permit recovery of the full amount of the projected step increase at this time, it would result in an additional increase in customer rates of about 0.73 percent. So, it's fairly small. But it's -- we think it's a fair provision here for, as I said earlier, for protecting customers, as well as providing the Company with recovery of assets that they have been ordered by the DES to deal with, in terms of their leak -- water loss and leak detection efforts.

Q. Mr. St. Cyr, if I could just circle back to you, do you have anything to add to the step adjustment descriptions or testimony from Mr. Naylor?

A. (St. Cyr) I do not.

Q. Okay. Thank you. I'd like to move on to the section of "Financing" in the Settlement Agreement. And, Mr. Laflamme, the revenue requirement in the attachments was based on long-term debt, was that, in part, correct?

A. (Laflamme) Yes.

Q. And, all of the loans that were included in the revenue requirement, have they been approved by the Commission?

A. (Laflamme) Yes, they have.

Q. Mr. Naylor, are you aware that there have been changes to some of the loans?

A. (Naylor) Yes, I am.

Q. And, some of those changes are described in the Settlement Agreement, on Pages 9 and 10, is that correct?
A. (Naylor) Yes.
Q. Do you have an opinion from Staff on whether these changes require additional Commission approval?
A. (Naylor) Yes, I do. On April 2nd, the Company filed with the Commission, it's dated April 1st, and received by the Commission on April 2nd, the Company filed a letter providing an explanation for certain changes with respect to financing approvals the Company had previously received. The details of that letter are summarized beginning on Page 9 of this Settlement Agreement. And, we have reviewed the Company's letter. And, I'll deal with each of them separately.
The first one is resulting from Docket DW 06-104. In that particular case, the Company financed a vehicle. Originally, it was proposed that, in the filing the Company made in that docket, it was proposed that this vehicle, among other assets, would be financed through a loan with Lewis Builders. But it also indicated, in the Stipulation Agreement that was approved by the Commission in that docket, that the Company and the Staff at that time agreed that the

Company would pursue lower cost financing for its proposed vehicle replacements, and that the Commission picked up in its order and indicated that the vehicles would be financed either by Lewis Builders or by Ford Motor Credit, whichever offers the more advantageous terms. In this particular case, the Company ended up financing this vehicle with Allied Financial, as we've detailed on Page 9 of the Settlement. So, I think, in this particular case, there was an expectation that the Company would seek the best financing terms it could get. So, to the extent that the Commission believes that it needs to take action on this, well, Staff is supportive of it.

The second item is, begins discussion of it on Page 10 of the Settlement Agreement, it's DW 07-133. And, this was -- this was a note that the Company had entered into with a developer of the Coopers Grove water system. And, subsequent to the Company receiving Commission approval for that financing, the Company was able to renegotiate better terms. The loan amount was reduced and the interest rate was reduced. And, what this means for the Company's financial circumstances essentially is that more of the water system, which this water company acquired, is ultimately booked as contributed capital, which benefits customers, of course. So, again, to the extent the Commission action is required on that, Staff would be supportive of approval.

The third item is resulting from docket DW 10-111. This is a docket where the Company sought financing approval, again, from its affiliate, Lewis Builders, for a number of assets, including a vehicle. Subsequently, the Company was able to obtain financing through the dealer, and that financing was placed with Huntington National Bank. The interest rate on that financing was 2.49 percent, instead of the anticipated 5.5 percent through Lewis. So, again, the Company was able to achieve a better interest rate and better terms. The Commission's approval in that docket did not speak to anything, any other potential financing sources, except Lewis. So, again, if there is -- if the Commission feels that approval after-the-fact is needed, then, Staff would support that.

Then, finally, in Docket DW 11-193, in this particular case, as detailed on Page 10 of the Settlement Agreement, the Company simply decided to forgo a financing offered by Lewis for various capital improvements. The Company was able to finance the majority of those capital additions for 2011 and 2012 through current cash flow. So, I don't believe there is any Commission approval necessary here. The Company simply did not take advantage of the financing.

So, that is a summary of those four items that the Company had discussed in its April 1st letter. And, we have discussed these issues and related issues with the Company that, if, subsequent to a Commission approval, terms change or potential for better financing options arise, they should advise the Commission as soon as possible.

So, that's the Staff's view of these items, and that's why we've written it into the Settlement Agreement today, to try to bring these things to the Commission's attention. If the Commission feels action is necessary, then perhaps they will consider it in this, in its order in this case.

Q. Mr. St. Cyr, do you have anything to add?

A. (St. Cyr) Just that these changes have, in fact, been incorporated in the capital structure and are reflected in the rate of return that is utilized in this proceeding.

Q. Thank you. Mr. Laflamme, if I could discuss rate impacts with you. I believe Page 43 is the calculation of rates.

A. (Laflamme) Yes.

Q. And, if I could just have you briefly describe how you arrived at the calculation of the customer rate?

A. (Laflamme) Yes. The Settlement Agreement proposes that the permanent rates determined in Attachment A, as well as Step Adjustment Number 1 determined in Settlement Attachment B, should go into effect as of the date of the Commission's final order in this case. So, on Page 43, which is at Settlement Attachment B, Schedule 6, it shows the combined impact of the permanent rate increase of $29,895, as well as Step Adjustment Number 1, resulting in an increase of $27,050. And, the -- that, combined with the proforma test year revenues, results in a revenue requirement of $1,555,132. There was no change proposed with regards to the meter charges. Those are proposed to be the same as the tariff that is currently in effect. The only change in the rate is to the consumption charge. And, on Page 43, it's calculated at $5.02, which is approximately a 28 cent increase from where the consumption charge currently is, at $4.74 per hundred cubic feet of usage.

With regards to the impact to an average residential customer, that's indicated on Page 9 of the

Settlement Agreement. Currently, an average residential customer using 74.08 hundred cubic feet annually is paying for $471.14. Under the rates proposed in this Settlement Agreement, that would increase to $491.88, which is an increase of $20.74, or $1.73 per month.

Q. Mr. Laflamme, are you aware that, besides residential metered service, that Hampstead provides service in other categories?

A. (Laflamme) Yes.

Q. And, what are those? I have the tariff, if you want to refresh your recollection?

MS. BROWN: If I can approach the witness?

CHAIRMAN IGNATIUS: That's fine.

(Atty. Brown handing document to Witness Laflamme.)

BY MS. BROWN:

Q. Mr. Laflamme, I just would like to get on the record, what other classes of customers Hampstead has separate charges for? And, are they changing as a result of this rate case and Settlement Agreement? If you could speak to that please.

A. (Laflamme) There are separate charges for meter size, five-eighths, three-quarters meter, one-inch meter, one and a half-inch meter, and those vary based upon meter size. But the consumption rate for all is going to increase, from $4.74 to $5.02.

Q. Will fire protection customers see any change in rates?

A. (Laflamme) No.

Q. And, what categories of fire protection service does Hampstead offer?

A. (Laflamme) They offer municipal fire protection and private fire protection.

Q. So, to recap, is it accurate to say that the only change is to the consumption rate out of all of the rates that Hampstead has?

A. (Laflamme) Yes.

Q. Mr. Laflamme, do you have an opinion as to whether the proposed rate change is just and reasonable?

A. (Laflamme) I believe that the rate change proposed in the Settlement Agreement is just and reasonable.

Q. Mr. Naylor, do you have an opinion as to the just and reasonableness of the rate change?

A. (Naylor) I believe it is just and reasonable, the rates that are being proposed in this Agreement.

Q. Mr. St. Cyr, do you have an opinion as to the just and reasonableness of the proposed rates?

A. (St. Cyr) I, too, believe that they are just and reasonable.
Q. Okay. Mr. St. Cyr, can you please describe when the Company conducts its billing and how it would incorporate the permanent rate increase going forward, assuming the Commission approves it?
A. (St. Cyr) It bills twice a month, on the 5th and the 20th of each month. The billing that would go out on the 5th is based on meters that are read at the end of the prior month. And, the billing that goes out on the 20th would be based on meters that are read in the middle of the month. And, the Company would look to incorporate the new permanent rate on the first opportunity it has, once the Commission has approved the Settlement Agreement.
Q. Okay. Mr. St. Cyr, are you aware of temporary rates being in effect currently?
A. (St. Cyr) They are in effect, yes.
Q. And, can you please explain what the Company will do for reconciling temporary and permanent rates?
A. (St. Cyr) Yes. The Company will do a calculation that looks at the permanent rate going back to September 15th -- I'm sorry, September 1st. September 1st was the effective date of the temporary

rates. And, what we'll do is we'll compare the new rate in place from then, to the date on which the Commission issues its order, and do a calculation for the difference, and then propose a surcharge for recovery of that difference.

Q. Okay. Mr. St. Cyr, can I just ask you a couple questions about the rate case expenses? Do you know how -- whether the Company has those compiled at present?

A. (St. Cyr) We do not have them compiled, no.

Q. And, the provision within the Settlement Agreement is to provide the Commission, within 15 days from the date of the final order, a summary of rate case expenses?

A. (St. Cyr) That's correct. And, a surcharge for recovery of those expenditures as well.

Q. Okay. Mr. Laflamme, if I could turn to you. When the Company makes its filing of a temporary/permanent rate recoupment, what kind of review will Staff do?

A. (Laflamme) Staff will review the Company's calculation with regards to that. And, then, we'll make a recommendation to the Commission with regards to that reconciliation.

Q. What kind of an audit of the rate case expenses will Staff conduct?

A. (Laflamme) We anticipate that, as in other rate proceedings, that the Company will provide copies of invoices relating to its rate case expenses, which the Staff will do a thorough review on. And, again, once that review is done, Staff will be making a recommendation to the Commission with regards to rate case expenses.
Q. And, if the Company files for the temporary/permanent reconciliation, please describe Staff's review of that filing?
A. (Laflamme) For the temporary/permanent rates?
Q. Correct.
A. (Laflamme) Staff will be reviewing the calculation that the Company will be submitting, and to see -- to see that it's accurate and reasonable.
Q. And, will Staff file a recommendation on the reasonableness of the proposed surcharge and the accuracy of the calculations with the Commission?
A. (Laflamme) Yes, it will.

MS. BROWN: Looks like both Attorney Levine and I are done with our direct. So, thank you.

CHAIRMAN IGNATIUS: Thank you. Questions from the Commissioners?

CMSR. HARRINGTON: Yes.

CHAIRMAN IGNATIUS: Commissioner Harrington.

CMSR. HARRINGTON: Good morning.

BY CMSR. HARRINGTON:

Q. If we could just start with the Settlement Agreement, and I'm just trying to walk through the process of how we got here. If I'm following this right, originally, the Company requested an increase of 6.99 percent. And, then, subsequently, that was increased as a result of a new employee and additions to its rate base, and the increase went to 9.83 percent. And, now, it appears it's being -- the Settlement Agreement grants an increase of 3.8 percent. Do I have that correct?

A. (St. Cyr) Yes.

A. (Laflamme) Yes.

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

Q. Okay. Can someone, whoever is the most appropriate, give me some idea of, that's a fairly substantial difference, what was the major -- what were the major expenses that were incorporated in the 9.83 percent that are no longer there in the 3.8 percent? Was there a mathematical error or it just things were agreed on that -- I'm trying to figure out what the difference?

A. (Laflamme) Yes, I can -- I can attempt to answer that question. A lot of the difference came as a result of the -- of the adjustments that I described earlier. There are also, and I didn't -- I didn't describe some other adjustments that were made and reflected in the Agreement, and those have to do with the operating expenses. In its filing, the Company proposed a number of increases to its operation and maintenance expenses. And, an analysis of those is found on Page 34 of the Settlement Agreement, and that would be Settlement Attachment A, Schedule 4b. And, in its -- the third column of numbers over, and the title of that column is "Company Pro-forma Adjustments", and in its filing the Company proposed to increase its operation and maintenance expenses by $49,500. And, this was based on anticipated increases in those expenses as a result of a couple of systems that the Company had taken on, and also a program that -- an ongoing program that the Company has been conducting in order to reduce its lost water. So, the Company anticipated that its expenses going forward from the 2011 test year would increase by approximately $50,000.

The first column of numbers, which shows the 2012 actual expense, actually indicates that those increases in those expenses that the Company was anticipating did not pan out, in the period that's 12 months prior -- 12 months subsequent to the test year. Therefore, the parties agreed that those expense adjustments amounting to almost $50,000 should be reversed, and that is reflected in the Settlement Agreement.

Q. And, that would account for almost all of that difference, it sounds like, based on that amount?

A. (Laflamme) Yes.

Q. Okay.

A. (Laflamme) Yes.

Q. Thank you. I'm going to have to switch back and forth here, because my Settlement Agreement that I marked up doesn't have the page numbers on it. So, bear with me for a second. Here it is. Okay. I guess it's on Page 4. Just a couple of questions on this under -- is the breakdown of debt versus equity, is that normal for water companies? Or, it seems pretty high on the debt side.

A. (Laflamme) The Company is heavily leveraged. But, actually, the percentages that are presented on Page 4 are actually an improvement over what the Company was reflecting in the past.

Q. Okay. And, if you can help me out with some terminology. On Page -- I believe it's Page 38 of the Settlement Agreement -- no, I got the wrong page. It's the page that showed the increases in rates, if you remember where that was? No, it was another page. It had the 3.8 percent rate increase overall on it.

MS. BROWN: And, I believe that was Page 43, in the calculation of rates.

CMSR. HARRINGTON: Yes, that was what I was looking for.

MS. BROWN: Okay.

CMSR. HARRINGTON: Thank you. I got it right here.

BY CMSR. HARRINGTON:

Q. And, just out of curiosity, I'm trying to figure this, you have come up with a percentage here of increases, and it's all based on this figure of "1,498,187", which is "Proforma test year annual water revenues". But, if you go back and look to the narrative on the beginning of the Settlement Agreement, for example, on -- I don't have page numbers -- so, under "Introduction and Procedural History", and then going up to the top of the next page, you have a number there that says that the permanent basis was -- "to increase annual revenues on a permanent basis of 101,774, or 6.99 percent, to a total revenue requirement of 1,663,055." But, if you subtract the 101 from the 1.6, it doesn't come out to "1,498". So, what am I getting wrong here?

A. (Laflamme) Okay. Yes. The "1,663,055" number is total revenues earned by the Company, which include the revenues earned from rates, as well as other operating revenue. I would suggest that you go to Schedule 4 of Attachment A, and that may -- that may clarify that issue.

Q. Do you have a page number on that?

A. (Laflamme) Oh, I'm sorry. Page 30.

Q. Okay. All right. Got it.

A. (Laflamme) And, I think, in the Company's filing, and what's indicated in the opening narrative, is total operating revenues earned by the Company. Which, if you look at the very first column of numbers, during the test year that was $1,561,311. And, I believe that the Company was basing that 1,663,055 on the total revenues earned by the Company. But what is ultimately reflected in the Settlement Agreement is the increase based on sales of water, which does not include the other operating revenues.

Q. Okay. So, let me just try to put this in more basic terms then. What was written in the beginning, in the first couple of pages of the Settlement Agreement, those percentage increases were on total operating -- total operating revenue, and not just the sales of water, it's the other operating revenue included?

A. (Laflamme) I believe that's correct.

Q. Okay. So, on Page 43, where you have the "3.8 percent", that is based on increase in revenue from the sale of water?

A. (Laflamme) Right.

Q. Okay. So, there's also an increase in total and other operating revenues?

A. (Laflamme) I don't believe so. I think -- I believe that those remained -- oh, there was a slight --

Q. Yes.

A. (Laflamme) -- just a slight adjustment in that number. During the actual test year, it was $69,137. And, there were two minor adjustments to that figure. And, ultimately, what's reflected, for purposes of the Settlement, are $67,879 for other operating revenues.

Q. Okay. Well, it says back, under "Terms of Agreement", it says "The revenue requirement also includes operating expenses, including income taxes. The revenue requirement agreed to by the Settling Parties is an increase of about $30,000", "$29,895". Is that what you're referring to?

A. (Laflamme) I'm sorry, could you --

Q. Okay. If you go back to, again, I don't have the page numbers, give me a minute, I guess it's one, two, three -- Page 4 of the Settlement Agreement?

A. (Laflamme) Yes.

Q. Where it says "Terms of Agreement"?

A. (Laflamme) Yes.

Q. Okay. And, at the end of the first paragraph, it says "The revenue requirement agreed to by the Settling Parties results in an increase of $29,894" -- "$895". Is that the increase you're talking about to non-water sales?

A. (Laflamme) That would be strictly -- that increase, it refers strictly to an increase in water sale revenue.

Q. Okay. So, that's just the water sale part of it?

A. (Laflamme) Correct.

Q. Okay. And, then, there's another part of it from non-water sale revenues?

A. (Laflamme) It's included in the overall revenue requirement, but there's -- that's based on fees, --

Q. Okay.

A. (Laflamme) -- which, and there's no -- there's no increase reflected for those particular revenues.

Q. So, if I'm a customer, because I really don't care as a customer whether I'm paying for water revenues or fees or whatever you want to call it, what's the percentage increase for the -- the equivalent to the overall revenues? All the revenues coming in, it's not 3.8 percent, it's something slightly higher, I guess. Probably not much, but --

A. (Laflamme) The increase as -- it would be -- I believe it would be lower, because we're adding -- we're adding the other operating revenues. So, --

Q. See what I'm trying to refer to, is the rate increase on Page 43 says "3.8 percent"?

A. (Laflamme) Yes. I believe it's -- I think it would be 1.9 percent increase, based on all revenues.

Q. Based on all revenues.

CHAIRMAN IGNATIUS: That's 1.9, instead of 2. You're talking about the --

WITNESS LAFLAMME: It would be 2 percent based on water sale revenue; 1.9 percent based on all revenues.

BY CMSR. HARRINGTON:

Q. Now, you've got me totally confused. Go back to Page 43. What percentage, where it says "3.8 percent", which is "Total increase in Annual Water Revenues", "3.8 percent"?

A. (Laflamme) Oh. Okay. Yes.

Q. Okay. That includes the sale of water and then the step increase?

A. (Laflamme) Right.

Q. So, then, you say there's some other things that doesn't have to do with --

A. (Laflamme) Okay.

Q. It doesn't include 2 percent or it doesn't include the 1.81 percent, it's the "all other revenues". You know, so, what does it come to when you include everything?

A. (Laflamme) Okay. I forgot to put in --

Q. Okay.

A. (Laflamme) -- the step increase when I -- I apologize for that. About 3 -- 3.6 percent.

Q. 3.6 percent, okay. All right. So, moving along. Counting right, we're on Page 9 of the Settlement Agreement. And, this is where we're talking about the proposed effect on rates, the customer rate impact. And, on top of the page, it says "the average annual bill will increase", for this average residential customer, "by $20.74". If I'm doing my math right, that's 4.4 percent, unless I'm doing math wrong. Why is -- what's the difference there? Maybe I'm just subtracting wrong or something. What I did was I took 20.74 and divided it by 471.14.

A. (Naylor) Yes. That's -- I think that's pretty clearly based on the five-eighths inch meter. Remember that, when we here calculate the average annual bill for a customer of 471.14, as it is now, that includes a substantial, you know, a substantial portion of that is a fixed charge. That's not changing. That's $120 annually. The rest is made up of the consumption charge. But, here, we're using an average consumption of 74.08 hundred cubic feet annually. That's, and the Company could probably confirm this, but I believe that's an average residential consumption for all of their systems combined. And, I would look for the Company to confirm if they know that to be the case. I don't recall where we -- exactly where we got that number.

MR. SULLIVAN: It's the annual.

(Court reporter interruption.)

BY THE WITNESS:

A. (Naylor) I'm just speculating that that's the source of that number that we use in the Agreement, the 74.08 hundred cubic feet annually. Suspecting that that's -- I mean, that is a figure that represents about, if I remember my math right, it's about 150 gallons per day of usage, and I think that's pretty typical of residential consumption in this day and age. So, that's going to have an effect on the percent increase that a customer, you know, in that consumption range, would use. Whereas, a customer using more than that is going to see a higher percentage increase, a customer using less than that is going to see a smaller percentage increase. Because what we're proposing here is to keep the fixed charges constant, and reflect the rate increase proposed here only in the consumption rate. So, that's going to cause a little bit of a difference across the board in users for what rate impact they're going to see.

MS. BROWN: Both the Staff and the Company did not call Mr. Sullivan as a witness, but he's available, if he needs to be sworn in for additional information.

BY CMSR. HARRINGTON:

Q. Okay. So, what you're saying is, because the annual charge, which is fixed, that's in there, and that didn't change. And, so, depending on your amount of usage, the percentage of increasing your bill will vary?

A. (Naylor) That's exactly right.
Q. Okay. That answers my question on that. Thank you. It was just -- this was maybe just something really trivial. But, on Page 9 of the Settlement Agreement, you're talking about the truck, and it says, on the bottom of Page 9, "The terms of the proposed financing from Lewis included a 5-year term and a variable rate starting at ten and a half percent." Then, at the page -- or, the top of Page 10, it says they were able to find a "5-year fixed rate at 5.99 percent. Therefore, HAWC financed the purchase of the pick-up truck with Ally Financing instead of which HAWC." Is that implying that HAWC and Lewis are the same or is that just a typo?

MR. LEVINE: I can answer that. That's a typo. It should be "Lewis Development".

BY CMSR. HARRINGTON:
Q. And, generally, on the financing, there seems to be at least a trend on these that each time the Company went to look for financing, they started with Lewis, and then they were able to get substantially better rates from somebody else. Is that the way it's been generally or --
A. (Naylor) Yes. And, I'll test my memory a little bit

here, but I'm quite sure that over a number of years Staff and the Company have been in agreement, and presented to the Commission for approval, when the Company has sought a financing through Lewis, that the financing terms have typically been prime plus some number. And, I don't recall off the top of my head exactly what that number is. So, -- and Mr. St. Cyr tells me it's 2.25 percent. So, the prime plus 2.25. And, you know, we've been fine with that. The Company -- the water company here has had a very steady source of financing through its affiliate, which, of course, is critically important.

You look at these, interesting that the first one is a docket from 2006, and you look at what the interest rate from Lewis was to be on that financing, 10.5. So, we've seen that reflects a general trend in interest rates that --

Q. Okay.

A. -- that has been certainly beneficial for the water company. That using a "prime plus" financing mechanism from Lewis has been very beneficial, now that rates are so low. So, --

Q. Okay. Well, I think that explains that. Going to the service agreement, Page 50. I want to give you a chance to get there. Under the "Rental", it says "Lewis will provide on an annual basis the square footage of rental", and it talks about different things, "at the per square foot per year rental basis." Then, it says, on Section 6 -- 5, on the next page, "For all costs (labor, services" -- "(labor, material & services)", there's a "overhead factor" of "34 percent". So, would I assume then that the rental -- cost of rental is being given at Lewis's actual cost, plus 34 percent?

A. (St. Cyr) The specific costs are actually identified on Schedule A.

Q. Yes, but it's 30 pages long, I couldn't find the right one. So, --

A. (St. Cyr) Schedule B, Page 54.

Q. 54?

A. (St. Cyr) These are the --

Q. I'm sorry, which page?

A. (St. Cyr) It's Page 54. The specific costs related to the rentals are identified.

Q. Oh, I'm sorry. That was -- excuse me. That was my mistake. I thought the "Schedule A" they were referring to was the one that was back in here with all the pages on it. So, excuse me. Go ahead. Okay. So, that's just a "per square foot" thing. So, I assume that -- I guess my question is still the same. Those figures here for the square footage, "12.00", "5.00", "5.00", those are at Lewis's cost? Because it appears that it's a service, I'm assuming, so, it's going to gets a 34 percent markup under Article 5?

A. (St. Cyr) Off hand, I don't know whether it's included or not. I think they may be separate calculations. I want to say that the "34 "percent pertains to labor. And, these aren't labor-related. So, I can't comment on whether or not the 34 percent is incorporated or not.

Q. Well, it says "labor, material & services". And, so, I just sort of assumed the "rental" was a service.

CHAIRMAN IGNATIUS: Mr. Levine, do you have information on that?

MR. LEVINE: Yes. Mr. Sullivan can explain the mechanisms to how this is calculated. The agreement has been approved and we've gone through this. But the rental is separate from the overhead expense, the overhead labor burden. So, those two calculations are separate.

CMSR. HARRINGTON: That's what I was looking for. Thank you.

BY CMSR. HARRINGTON:

Q. And, the same thing or the same agreement still, on Page 51, the "74 percent" markup, can you give a little more explanation, other than the -- the beginning part talks about "workmen's compensation, insurance, employee benefit, employer paid payroll taxes", then there's an "*etcetera*". I'm used to seeing that number as somewhere in the 40 to 50 percent range. Seventy-four percent seems a little high or maybe I'm just missing something.

A. (Naylor) Yes. I think -- I don't know exactly if we have a updated schedule for that. We have, and I know Mr. Sullivan probably is the best person to answer that, we had in the past gone through this in very extensive detail. And, our Audit Staff has looked at it before, with respect to the calculations. So, I'm not -- I'm not concerned about that number. I know that we've worked this out previously. I don't remember if that number has changed significantly from prior years. But we can certainly provide something to the Commission on that, if we want to take a record request, because I'm very confident that --

Q. Okay.

A. (Naylor) -- we have reviewed that in detail.

Mr. Sullivan certainly remembers the pain of going through all of that at some time, actually, quite some years ago, we worked out a pretty substantial analysis to make sure. Because Lewis not only provides services to the Company here, in terms of, you know, sort of general support, personnel, office, office supplies, this type of thing, but has also, in many instances, constructed the water systems that Hampstead Area Water Company ultimately owns and then operates. So, because there's an affiliate relationship there, we were very careful to make sure that the water systems that were brought onto the books of the water company were brought on at reasonable costs, so that would be, you know, something similar to a market cost, if an unrelated party had constructed a system and the water company had purchased it. So, we had that reason alone to scrutinize these overhead rates and so forth. But we can certainly provide some additional information on that.

Q. And, I guess that same process you went through there would apply to the overhead expenses in Section 5, the "34 percent"? I mean, I have no idea whether that's -- I'm assuming it's in the ballpark, but you went through the process of reviewing where that came from as well?

A. (Naylor) Yes, undoubtedly. And, we probably have audit reports or some other types of materials that would sustain that.

CMSR. HARRINGTON: That would be helpful.

CHAIRMAN IGNATIUS: So, is that something, Commissioner Harrington, you'd like to see, a written explanation?

CMSR. HARRINGTON: Just an explanation for those two would be helpful please.

CHAIRMAN IGNATIUS: All right. Then, why don't we reserve Exhibit 7 for a record request on further explanation of the Items 4 and 5 in the Management/Service/Rental Agreement.

MR. LEVINE: We can do that. If it is helpful, at this time, Mr. Sullivan can explain those questions. We just didn't anticipate presenting his testimony as part of the panel on that issue.

CMSR. HARRINGTON: Whichever way is more expedient, I guess.

CHAIRMAN IGNATIUS: I'm fine if we do that right now with Mr. Sullivan, and I'd ask you to be sworn first, but you can remain at your seat.

MR. LEVINE: Thank you.

(Whereupon ***John Sullivan*** was duly sworn by the Court Reporter.)

CHAIRMAN IGNATIUS: Yes, make sure the red light is showing, if it's not already.

MR. SULLIVAN: It is.

CHAIRMAN IGNATIUS: Thank you.

CMSR. HARRINGTON: Yes. Basically, I'm just looking for the markup on the -- whatever it's called.

MR. SULLIVAN: The "labor burden".

CHAIRMAN IGNATIUS: "Labor burden", right. And, as I stated, I think, you know, what I'm used to seeing a figure in more in the 40 percent, maybe 50 percent range, unless there's something in that "*etcetera*" that I'm not aware of, when you look at employee benefits, payroll taxes, insurance, *etcetera*.

MR. SULLIVAN: Well, it changes every year based on the actual cost to Lewis Builders. And, the Audit Staff has reviewed it. And, actually, this year, it has gone down to 66 percent, last year it was 74. So, based on things like insurance, health costs, payroll taxes, --

CMSR. HARRINGTON: Okay. So, that's a calculated number that you come up with and then you --

MR. SULLIVAN: Yes. It's calculated based on the actual financial statements of Lewis Builders.

CMSR. HARRINGTON: Okay. All right. Well, thank you. I think that addresses that concern. And, how about the "34 percent" in Section 5?

MR. SULLIVAN: That's the overhead based on the same calculation, office and general administrative overhead. And, this year, that's gone down to 22 percent.

CMSR. HARRINGTON: Okay. So, when you say it "goes down to 22 percent", does that mean, in the next rate case, that will be reflected as a lower cost?

MR. SULLIVAN: No. It's changed each year, each calendar year. So, based on the test year, it was the "74" and "34". The billings in 2013 are based on 66 and 22. But, when the Audit Staff comes in during the test year, they looked at that.

CMSR. HARRINGTON: Oh, I see. Okay. All right. All right, thank you. I think that addresses that.

CHAIRMAN IGNATIUS: Well, while we're on that, let me ask, should there be an amendment to the agreement that, since this describes the charges for 2012, now that we're in 2013, is there a revised agreement we should have that states the new figures?

MR. SULLIVAN: I think, in the agreement, it says it will be revised each year.

CHAIRMAN IGNATIUS: Yes. You're right, it does.

MR. SULLIVAN: And, it has been. Each year we do change it.

CHAIRMAN IGNATIUS: Okay. All right. That's fine. Thank you.

CMSR. HARRINGTON: That's all the questions I had. Thank you.

CHAIRMAN IGNATIUS: All right. Commissioner Scott.

CMSR. SCOTT: Good morning.

BY CMSR. SCOTT:

Q. On customer rate impact, I was curious, in other proceedings, for gas and even electric, for illustrative purposes, we often try to attach an average for a residential user for gas and electric. And, I was just curious, on Page 9, and I think it was mentioned also, there's a number for an average residential customer of 74 ccf of water annually. I was curious, is that based on, and, Mr. Naylor, I think you mentioned "150 gallons per day" was some figure you just mentioned, is that based on an actual average of recent times for this company or is it based on some norm, industry standard, or where does that come from?

A. (Naylor) This is a perfect opportunity to ask Mr. Sullivan, since he's sworn in. I suspect it's the average for all of Hampstead's systems for residential homes. But Mr. Sullivan can help.

MR. SULLIVAN: Could you repeat the question?

CMSR. SCOTT: Certainly. In the Agreement, there's a figure for an average residential customer. And, again, it was -- I assume it's for illustrative purposes, to try to signal what an average rate would be on a bill. Is that "74 ccf", where does that come from?

MR. SULLIVAN: That's the total cubic feet usage of all our customers, divided by the 3,054 customers last year.

CMSR. SCOTT: Okay. So, --

MR. SULLIVAN: That's the test year total gallons used, and divide that out, or, actually, cubic feet, divide that out, you get the 74.

CMSR. SCOTT: Excellent. Okay. So, that's basically a current average as of the time you had to --

MR. SULLIVAN: As of that time.

CMSR. SCOTT: Excellent. Thank you. That's all I had.

CHAIRMAN IGNATIUS: I have a few questions, though many have been covered.

BY CHAIRMAN IGNATIUS:

Q. On the rate impact, you've got the amount in the sort of standard permanent rate request that's just under 2 percent, if you are dealing only with water sales numbers, correct?

A. (Witness Laflamme nodding in the affirmative).

Q. And, then, just under 1.8, somewhere like you said, 1.7, if the first step is approved, and those would happen simultaneously. And, then, if the second step were to be approved at the maximum, that would be about 0.7?

A. (Witness Laflamme nodding in the affirmative).

Q. So, that the total rate impact, if all three things were approved, and I realize it's not all at one day, it would be over the course of the time it takes for the second step, would be around 4.3 percent?

A. (Laflamme) 4.54 percent.

Q. Well, I took them -- I backed them out with your refinements of water sales.

A. (Laflamme) Oh. Yes.

Q. But I guess I'm wrong about that. The most important number really is about what customers will see in their bill, not that test, but the overall revenue requirement is the higher number of total revenues, correct?

A. (Laflamme) Correct.

Q. So, that would be the 4.54?

A. (Laflamme) The 4.54 would just be based on sales, sales of water.

Q. No. I thought you told me that the sales of water was the lower number, 2 came down to 1.9?

A. (Laflamme) That includes not only water sales, but also the other operating revenue earned by the Company.

Q. Oh, I have it backwards?

A. (Laflamme) I believe so.

Q. Okay. So, the overall revenue requirement, if all three increases were approved, the base number, the first step, and, ultimately, the second step, the total revenue requirement to the Company would be 4.54 percent?

A. (Laflamme) Just based on water sales, yes.

Q. All right.

A. (Laflamme) It would be lower, if you included the other operating revenues.

Q. All right. And, when you get into the calculations of recoupment, it gets extremely complicated, doesn't it because the first step would not be included in the calculation of recoupment back to September 2012, because it was not in effect at the time, right?

A. (Laflamme) Correct.

Q. So, you'll have some amount, the 2 percent will go back to September 1st, 2012, the first step would not go back?

A. (Laflamme) Correct.

Q. And, if the second step is ultimately approved, that also would not go back?

A. (Laflamme) Correct.

A. (St. Cyr) It's not complicated, though. The Company has an existing permanent consumption rate that was approved for temporary, and it has a consumption rate that was -- is being proposed for permanent. And, what we're going to do is compare those two rates over the consumption from September 1 to a date, and that difference will represent the amount that will be recovered for the temporary versus permanent.

Q. All right. And, have you -- you may have spoken to this already, and I just didn't hear it. Is there a thought yet on what period of time the reconciliation might be collected over?

A. (St. Cyr) We have not had that discussion. But I'm not expecting it to be a big number. So, I would expect a shorter time period, rather than a longer period.

Q. All right. But that would be part of what's worked out with --

A. (St. Cyr) Well, we would propose, and what Staff would review, and hopefully be able to come to a joint recommendation on it.

Q. All right. Mr. Naylor, when you get to the consideration of the actual rate of return of the Company, as to whether or not the second step is appropriate, how extensive a rate of return analysis do you expect to undertake? I mean, we have the full rate case approach, and then there's sometimes where there's more of a simple review of expenses out and revenues in.

A. (Naylor) Right.

Q. Where does that fall in that spectrum?

A. (Naylor) Yes, that's an excellent question. Because you -- you may have items that would, in a rate proceeding, be considered "non-recurring", so, you would eliminate those or reduce them, then go through that type of analysis. You may also have issues of plant items, you know, that may be in the plant in service accounts that may not yet be actually in service. Although, that accounting is typically not a problem for companies. Hampstead does a pretty good job with their accounting overall.

But I think what I anticipate is that we will, and there's a couple of other things that's slightly complicated, but I think we'll look at it fairly closely. I mean, we wanted to make sure that, if we were to support a second step adjustment, that it would, considering that it would come only, you know, seven or eight months after the Commission has considered new permanent rates for this Company, and, at least in theory, has brought the Company's earnings up to, you know, its full authorized return, that we would not be suggesting that rates should be changed again that would result in an overearnings situation, and basically it would be unfair to customers.

But I think that -- I think that review needs to be, you know, sort of a little bit more than just simply taking the, you know, 12 months results and doing the calculation. I think we need to look at --

look at it in a little bit more depth. So, I think we would certainly look at some of the expense categories, compare them to prior years, and kind of get a feel for, you know, where it is.

The other complicating factor, slightly complicating factor, is the fact that we are taking, for that analysis, we will be taking three months from 2012, and marrying them to the first nine months of 2013, so that we have a full year's of operation. That's important for a couple of reasons. Obviously, a full year of operations is a typical analysis. It's not a calendar year, but it's a fiscal year, I guess you could say. Number two, you have significant seasonal variations in water sales. So, we needed to bring in not only the projected higher sales for the summer months, but, you know, the lower sales that are typical of the winter months, so we have a 12 months that's representative. So, I would say that it probably -- the analysis should probably fall somewhere between simply doing the calculations with the numbers presented and a full rate case analysis, it's going to be somewhere in between that.

And, certainly, we need to understand any changes that may have -- the Company may have experienced in that 12-month period. And, if their annualized operation and maintenance expenses, for example, were, you know, 20 percent higher than what this rate case is calling for, that's something we'd have to get into in more depth.

But a little bit of a -- you know, a little bit of feel we need to use on that, and sort of get a feel for whether it looks good to us. There's no, you know, perfection in any of this. There's some judgment involved.

Q. Another area where things may change over time, the discounting that was done for some of the systems that are not close to their build-out, and I'm looking at Page 22 of the Settlement Agreement, how does the Company get caught up when customers do come on line? Or, maybe put differently, what's the rate impact -- that's not really a "rate impact" question, what's the revenue impact, if we're going forward with the sort of discounted approach here, but, in fact, many new people are coming on board? What does that do to the -- how much does that throw off, if at all, the books and records, and what you look at when you're looking at all of the rate calculations?

A. (Naylor) Well, it's a good question, because what --

and, certainly, Mr. Laflamme or Mr. St. Cyr can give their thoughts on this, too. Essentially, what we've done here is removed from rate base a portion of the assets in certain of these systems, to reflect the fact that they either have not been fully built out or, you know, there's -- the systems are constructed to a capacity that is not yet being used. So, as -- I guess, in theory, you would say, as new customers do come on to those systems, then, in theory, the Company's rates should be, you know, theoretically be adjusted for additional rate base that would be, you know, permitted to come into -- actually to come into customer rates. But you also have the new revenues from those new customers, too. So, I don't think, in terms of, I guess, if your question is specifically thinking about the calculations we'll do this fall, late this fall, with respect to the evaluation of that second step adjustment, I don't think we need to make any adjustments for this type of thing, because, if they do -- if they do add new customers, those revenues will be reflected in that, you know, in that analysis. And, if by not including the excess capacity, so to speak, in the rate base causes the Company to reflect a revenue deficiency, for that purpose alone, isolating anything else, then, they would be permitted to file for the step adjustment or some portion of it to bring their earnings and, therefore, bring their rates up to where they should be.

A. (St. Cyr) I have just one other thing I would add to that, because we did have one brief conversation about this in the settlement conference, and we haven't really acted on it since then. But, right now, the full investment and any related CIAC is reflected on the books, and it's being depreciated at full value. What this adjustment does is it takes it out of rate base. So, the question that we've -- that was raised in the settlement conference is whether or not we should be depreciating and amortizing these assets, because, as we do that, the value of those assets are declining. So, when we get to, say, the next rate case, we will have lost the opportunity to recover what the Company prudently invested. So, we probably need to have some discussion in-house in terms of whether we somehow adjust our depreciation and amortization to reflect the fact that the plant isn't being fully utilized. And, then, as time goes by, perhaps adjust that. But it's a level of complication and a level of discussion that we really haven't had at this point.

Q. How complex would it be to -- I take it what you're saying is, if you're only including 60 percent in rate base, then 40 percent the Company is not earning on, but 100 percent is being depreciated?

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

Q. How complex would it be to adjust the depreciation to reflect 60 percent of the investment only?

A. (St. Cyr) I think that's probably something that we can do. But, then, it also becomes a question of, "at what point in time do you add back?" Do we wait for the next rate case, so that, instead of a 40 percent reduction, we're looking at a 20 percent reduction? Or, do we adjust that as individuals add on? I guess we haven't really thought through all the particulars as to how you get from where we are here to, you know, how does the Company, you know, recover its full investment in these systems?

Q. And, Mr. Naylor, in your experience, have we had similar situations? And, is there any kind of standard that the Commission's used in something like this?

A. (Naylor) I know we've done this type of thing before, I don't believe it's been recent that we have, but my recollection, it would be quite a number of years ago. Where rates were set, particularly for systems that were brand-new, and these, of course, would be associated with residential developments, as these are. Where there were just a handful of customers taking service for a system that was constructed to serve, you know, perhaps dozens of customers. I don't recall if there were any special considerations taken for these issues with respect to depreciation. Certainly, there are assets in the ground that, from a physical standpoint, are deteriorating, yet they're not being fully recognized in rate base. And, that is an issue. Part of the reason for depreciation expense, from a utility ratemaking perspective, is not only a return of the company's investment in that asset through cash flow into -- through rates, but also to spread the cost of the asset over its useful life on a straight line basis, so that the customers who are using the asset pay for it. And, so, it's -- there's a little bit of complication there. But, I think, you know, the first instance of the physical deterioration of the asset is something that works against the company. In other aspects, you know, customers benefit from only paying for that portion of the system, on a theoretical basis, that they're not, you know, not being served by. But we've taken -- tried to take into account this particular issue, we had some discussions about it, in general terms. And, I would suggest to the Commission that this is -- through the Settlement Agreement, there were a number of give-and-take things in here. This would be one of them. So, I think, in total, it's a fair -- a fair agreement. There are some things that each side would probably take a little bit of issue with, from a theoretical basis. But I think it's fair.

Q. And, in your view, when the assets are fully included in rate base, whether that's two years from now, five years from now, and maybe as part of a permanent rate case, would they come in at the then depreciated value?

A. (Naylor) Yes, they would, because the Company is, for book purposes, depreciating these assets just as if they were fully in rate base. The adjustments made here on these schedules, and the adjustments from these schedules that ultimately form the rates that are going to be charged to customers, are just for the purpose of setting rates. The Company's bookkeeping for depreciation expense, you know, for their recordkeeping and so forth, doesn't change at all as a result of this. And, that was Mr. St. Cyr's point. That they're, for book purposes, recognizing a depreciation expense that they're not receiving through rates, a portion of it they're not receiving through rates. So, that's the downside for the Company on this. But, as I say, this is a settlement. And, perhaps there are some other things in here that the Company is pleased with and happy with, like a second step adjustment for 2013 investments. So, --

Q. A question about the financings. I noticed in the audit there was a recommendation that, because the initial approved financing terms proved to be higher than what was actually obtainable, the Company, you know, wisely went forward with the lower -- the better terms. But, in the audit, there was a suggestion that future loan approvals or requests might include a request that it be revised at the extent that better terms are available. Do you think that that would be an appropriate thing to include in future requests, Mr. Naylor?

A. (Naylor) In other words, if the Company's aware of other opportunities or other possibilities for placing a financing?

Q. Or, even, in this case, it sounds like there wasn't a known alternative. But, by the time they really went for the loan, --

A. (Naylor) Right.

Q. -- it became apparent?

A. (Naylor) Yes. I think that was the case with the vehicles. Where perhaps the Company had engaged in conversations with the dealer, and the dealer said "I can get you this deal through this bank." And, so, yes, I think -- I think that's appropriate. I think the Company should alert the Commission when it makes its petition for financing. And, as I indicated earlier, if, subsequent to the Commission's order that, if other circumstances arise, they should advise the Commission right away, so that, if further Commission action is warranted, then it can be put before you for consideration.

A. (St. Cyr) And, actually, just to add to that, another approach might be, particularly as it pertains to vehicles, that, you know, the petition itself could ask for the flexibility to have that built in to begin with, rather than necessarily put the Company in the position of, if it gets a better deal six months later, that they then have to come back and get approved for that.

Q. All right. A question about the audit, this is Exhibit 6, at Page 52, had one item that looked as though it hadn't yet been resolved, although there was no dispute

about working on it. It says that, on the issue of using -- allowing customers to pay bills with credit cards, that the processing fees be something, and use of credit cards for bill paying be considered and evaluated, and it says that "The Company and Staff are encouraged to review the issue." I guess, Mr. Naylor, what do you anticipate is the next step in this?
A. (Naylor) Yes. This issue has come up a couple of times before. And, I'm, frankly, as I read this, I don't recall how it was resolved in those cases. I think we, at the Staff level, have been somewhat reluctant to include recovery of those costs from other customers. The thinking that, if certain customers choose to pay with a credit card, or as opposed to writing a check or whatever, or any other way of paying, that they shouldn't have to pick up those costs. But I don't know. As I sit here, I'm inclined to think that's the right answer. If you look at the unregulated business world, any vendor or merchant post a price for a product, it's $100, somebody walks in, hands them two fifties, they get $100. If somebody walks in and pays with a credit card, they get, you know, $96 or $97, whatever less the fee is.
So, I guess I'm not at this point

convinced that those are costs that are appropriate to be passed on to the rest of the customers.

Q. Do you anticipate discussions with Staff and the Company to keep exploring it, or even broader than that, not just this company, but if there are other companies as well? I mean, we don't have to resolve it today, I take it? But it's --

A. (Naylor) Right. Right. I'm always open to suggestions from the companies on how to resolve certain issues.

A. (St. Cyr) I guess I would just add that, you know, companies really should be encouraged to take advantage of the technology that exists. And, this is a way in which it brings revenue into the company sooner, which benefits all customers. You know, to not allow the cost associated with that seems to be to discourage the company from using technology that's readily available, and that will continue to be used more and more going forward. So, I'd be sort of on the opposite side, in that, you know, we should be encouraging companies to take advantage of the technology and allow them to recover the cost associated with that. And, that, hopefully, overall, that that would benefit customers.

CHAIRMAN IGNATIUS: Mr. Levine.

MR. LEVINE: Thank you, Commissioner.

There's also the third alternative of allowing those particular customers who utilize -- choose to utilize credit cards pay the freight for that, rather than pass it on to the customers who choose to pay otherwise. And, the technology exists for that.

BY CHAIRMAN IGNATIUS:

Q. I would imagine that we've got some utilities that have credit card payment available, and I have no idea what their treatment is, whether there's any fees, and, if so, who picks those up. So, I guess I would encourage, Mr. Naylor, that we work in looking at the issue across the board, across industries, and keep thinking about what the future ought to be for this kind of payment, and whether we have any protocols that we want to, you know, recommend across industries. But it doesn't need to be resolved, I take it, as part of this case, correct?

A. (Naylor) Yes. And, certainly, as a way of speeding up the Company's cash flow, that's a positive thing for all concerned, and certainly would impact the Company's working capital calculation. So, the customers may get an offset from it.

CHAIRMAN IGNATIUS: All right. Those are my questions. Thank you. Commissioner Scott has another question.

CMSR. SCOTT: Thank you.

BY CMSR. SCOTT:

Q. Going back to your Settlement, you mentioned that the first step adjustment is, basically, you're asking for approval subject to the completed audit. I was just curious if we had a time frame of where that audit stood?

A. (Laflamme) The audit, relative to the first step adjustment, is currently ongoing. But we anticipate that that is going to be completed within the next month or so. And, we certainly anticipate that, by the time that the Commission issues an order, that that audit will be completed and reviewed by Staff. And, if there is any material difference resulting from that audit, then Staff will inform the Commission with regard to that.

Q. Thank you. So, again, to rephrase. So, your expectation is there won't be a final order from the Commission until that audit is final?

A. (Laflamme) Correct.

CMSR. SCOTT: Thank you.

CHAIRMAN IGNATIUS: Thank you. Any redirect, Mr. Levine or Ms. Brown?

MR. LEVINE: Nothing from the Company.

MS. BROWN: I just have one follow-up question.

REDIRECT EXAMINATION

BY MS. BROWN:

Q. Mr. Naylor, you were asked questions about the Management Agreement and the labor and the -- labor burden and overhead. And, this issue is brought up in the Audit Report. I don't know if you have a copy of the Audit Report in front of you?

A. (Naylor) Yes, I do.

Q. And, whether the discussion of the Management Agreement and those labor burdens and overheads, on Pages 1 and 2, are relevant to your response to the Commissioners, and whether there's anything that you could add from this audit in response? If it's not relevant, then, fine, but --

A. (Naylor) Well, I'm glad that Mr. Sullivan was here to provide his response on the issue, because it helped to jog my memory. It's been a while since I've been involved in it. And, as he indicated, this is something that's looked at annually, and the numbers are adjusted accordingly. And, the Audit Staff has pointed out, at the bottom of Page 1, "Per the agreement, the rates are to be recalculated on or before April 1st of the following year as December 31st of the previous year." So, this is very -- this is very helpful to indicate how those rates have changed. And, so, I guess I don't really have anything to add to it, but just would reiterate what Mr. Sullivan said, that this is something that's been worked on in the past quite extensively. And, we came to an agreement as to how these things would be calculated and how much -- what these rates would be to apply to the costs that would be charged to the utility. So, --

MS. BROWN: Thank you. That was the only question that we had on redirect. Thank you.

CHAIRMAN IGNATIUS: Thank you. Then, the witnesses are excused. Though, for the sake of finishing up here, why not just ask you to stay put.

We have identification on the exhibits. Is there any objection to striking the identification and making them full exhibits?

MR. LEVINE: None.

MS. BROWN: None.

CHAIRMAN IGNATIUS: All right. We will do that. Are there any other matters to take up before closing statements?

MR. LEVINE: I am assuming that, since we got Mr. Sullivan's testimony, there's no need to keep the record open for that record request?

CHAIRMAN IGNATIUS: That's right. Thank you for that clarification. So, there is no Exhibit 7 to worry about.

MR. LEVINE: Thank you.

CHAIRMAN IGNATIUS: All right. Then, if there's nothing else, we will turn for closing statements. Ms. Brown.

MS. BROWN: Thank you, Commissioners, for your time today and your consideration of the proposed Settlement Agreement -- or, the Settlement Agreement with the proposed revenue requirement and proposed rate change. Staff respectfully requests the Commission approve the Settlement Agreement and its terms. Staff believes that the revenue requirement and the rates derived from that are just and reasonable. As Staff has testified, the only rate that is changing is the consumption rate. The meter charge and fire protection charges are not changing. And, the elements of the rate base have been fully audited. And, as detailed in the schedules, depreciation expense has been recalculated -- or, the depreciation rates have been recalculated and affect depreciation expense.

And, Staff caught, in this rate case review, some of the changes in the financings, have noted those. And, to the extent the Commission needs to reapprove them, if the Commission needs additional information from Staff, we'll provide it. But I think Mr. Naylor's opinion today is sufficient to cover these various dockets, if you took administrative notice in adjusting these orders.

With that, thank you for your consideration. And, again, we request that you approve the Settlement Agreement.

CHAIRMAN IGNATIUS: Thank you. Mr. Levine.

MR. LEVINE: Thank you, Commissioner Ignatius. Thank you, Commissioners. We feel that the Settlement Agreement is the result of a comprehensive exchange of information and dialogue with Staff and the Company. It's been rather comprehensive in its scope, including picking up some housekeeping items left over from other dockets. We feel that the rates proposed here are fair and reasonable and ask that the Commission approve the Settlement Agreement as submitted. Thank you.

CHAIRMAN IGNATIUS: Thank you. Then, I appreciate it. Because, obviously, there was a lot of details in all of the changes, adjustments, trying to anticipate where the step might be going, and the second step. And, so, I appreciate your work. It seems like you covered a lot of ground in a relatively short period of time, and didn't have to go out as late as the original schedule had called for for resolution on the merits. So, our thanks to all of you for the work.

And, with that, we'll take it under advisement and we are adjourned.

MR. LEVINE: Thank you.

(Whereupon the hearing ended at 12:12 p.m.)