

ORIGINAL

N.H.S.D.C. Case No.	DW 13-171
Exhibit No.	17
Witness	Panel 1
Eastman Sewer Company, Inc.	
DO NOT REMOVE FROM FILE	

Exhibit #17

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-1

Witness: Brian Harding

REQUEST: Could you please provide me with the following information as of the date of the ECA acquisition of the Eastman sewer company?

- a. Book cost
- b. Life expectancy/book.
- c. Depreciation method
- d. Current age

Could you please provide me with the following information as of December 31, 2012?

- e. Current remaining depreciation net book
- f. Current replacement cost

If the detailed inventory provided in item e. is in discrepancy with items a-d in the above request please explain any discrepancies?

The annual ESC audits to which you have referenced me are inadequate as to specific capital items. For examples of some specificity please refer to the CLD consulting engineer 2007 report. While the CLD report is more detailed as to capital components it is both obsolete and incomplete. The CLD report also states that certain inspection information was not provided by ESC to CLD.

RESPONSE: Regarding questions a, b, c & d - according to ESC auditor Ed Schulz (Seelye & Schulz, Nashua, NH) the schedule titled "Book Asset Detail"(pages 34-36 of Joint Petition filing of 6/12/13) provides information on all assets acquired by ESC from its inception through 12/31/12, except for assets that have been disposed of over the years. The information presented in the schedule includes a description of the asset, cost, date acquired, useful lives, depreciation method, current depreciation, accumulated depreciation and net book value. All of the information requested in a through d can be derived from the "Book Asset Detail"schedule, except for assets dispositions for which no perpetual record is maintained.

Regarding question e "The requested information is included in the schedule labeled "Book Asset Detail"

Regarding question f "Current replacement cost is not maintained for all company owned assets. That information would probably cost thousands of dollars to obtain, as an engineering firm would be needed to identify the individual components of the sewer plant and related systems and then determine the replacement cost of each item.

Regarding the request for an explanation of discrepancies "The items in a, b, c & d are requested as of the acquisition date of the Sewer company by ECA (January 2001). Item e is requested as of 12/31/12. The "discrepancy"referred to in your question is presumed to be the additions and dispositions of assets over a 12 year period. As previously noted, acquisitions are identified in the schedule labeled "Book Asset Detail"and a perpetual record of dispositions is not maintained. Auditors are required to keep records for 3 years. Businesses have no need to keep records with regard to asset dispositions beyond three years. If it is even possible to get the data, it would be a very time consuming and expensive project to gather information on disposals that far back.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-2

Witness: Brian Harding

REQUEST: The CLD report you have attached is incomplete and obsolete. It is now six years old and inadequate to assess the current June 2013 condition of the capital infrastructure which at today's replacement costs could range from \$7.5 million-\$15 million excluding any potential hazardous waste issues particularly for Eastman Lake, which may exist. Could you please provide a more current evaluation of ESC capital equipment which would meet the requirements of being in the public interest?

RESPONSE: The condition of the capital infrastructure of ESC has not changed significantly since the Capital Improvements Recommendations study by CLD in 2008. The needed upgrades and improvements were identified and incorporated into the ESC Capital Project Schedule, which is updated regularly as capital work is accomplished or as priorities change. The capital equipment is monitored and maintained on an ongoing basis by Water System Operators, per the operator's contract, or by outside contractors when necessary (i.e., the contract with Milton Cat to inspect and maintain system generators).

In addition, the existing facilities were reviewed by Underwood Engineers during 2011 and 2012 as part of their evaluation of alternatives to solve the compliance issue related to ESC's

Groundwater Discharge Permit. Their detailed report of January 4, 2013 includes an assessment of, and recommended improvements to, the existing facilities. A copy of this report was provided via email to Robert Logan by Brian Harding on February 8, 2013.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-3

Witness: Brian Harding

REQUEST: What I have found in the ESC audited reports in the audit notes is not in meaningful language that would explain in lay terms why you chose this costing approach. Referring to the book asset detail report submitted as exhibit A of the joint petition of the ESC to the PUC to approve sale (p. 28) the third page of that exhibit under "Group Sewer Plant", you have chosen to use a negative cost value as book cost for several items. Can you or your accountant explain why you have chosen this approach and the resulting impact on the ESC balance sheet and income expenses statement? Please explain in language that is consistent with the public interest.

RESPONSE: As sewer plant assets are replaced, the cost of the replaced asset is removed from the [Book Asset Detail] When components of the original \$2.3 million sewer plant are replaced, the estimated cost of the component replaced is removed from the total asset cost via a negative entry as done on page three of the [Book Asset Detail] This is in accordance with PUC policy.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-4

Witness:

REQUEST:

RESPONSE: In the original submission by Geraldine Logan, the "Request" section of 2a-4 is blank. Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-5

Witness: Brian Harding

REQUEST: Could you provide specific amounts per year for the years 2009 to 2012 which were paid for the PUC accounting work done? What other significant tasks were done by the accounting firm? Is it correct that they also prepared federal and state income tax submissions? Did the accounting firm oversee the ESC accounting recordkeeping for the period from 2009 to 2012 and if so, what amounts were they paid for that effort?

RESPONSE: The accounting work for the PUC Annual Report is done by Stephen P. St. Cyr & Associates (Biddeford, ME). For this work for the years 2009 to 2012, they were paid:

2009 □\$2,911

2010 □\$3,795

2011 □\$2,365

2012 □\$2,005

The other significant tasks completed by Stephen P. St. Cyr & Associates related to analyses and preparation of documents and exhibits for the rate case filing initiated by ESC in 2008.

Exhibit #17

Preparation of the annual Audit Report and federal and state tax filings are done by Seelye & Schulz (Nashua, NH). As stated in the answer to Geraldine Logan 1a-4 (ESC), they were paid \$21,553 for this work for the years 2009-2012. Seelye & Schulz is not paid a separate sum to ☐oversee the ESC accounting recordkeeping☐ The annual audit process includes a review of the accounting tasks and records of ESC for the year being audited.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-6

Witness: Brian Harding

REQUEST: In PUC order number 24.368, of September 2, 2004-- in the settlement agreement portion paragraph #3 states "the settlement calls for Eastman to begin, in 2004, a 10 year program of locating, inspecting and cleaning its sewer mains. Based on the bid Eastman received from vendors; staff (PUC) and Eastman agreed that Eastman would incur an annual expense of \$15,000 for this project." An annual expense of \$15,000 from calendar year 2004-2013 would be \$180,000 expended for locating, inspecting and cleaning it sewer mains. The list of maintenance items that you submitted shows that only about \$64,636 was expended in the past 10 year period. In fact your invoice submission indicates that \$48,660 of that amount was expended through November 2007, almost 6 years ago. In the past six years only about \$16,000 has been expended for this purpose which is less than \$3000 per year for the past six years. Of the \$16,000, \$6400 was again spent on Slalom Drive in November/December 2011--this was also done in 2007 on Slalom Drive for \$12,000. The document shows no video or cleaning of the lines from West Cove to Snow Hill which is at times within 40 feet of the lake. It is claimed by the ECA board that the protection of the lake and it's pristine quality, is of greatest importance to the Eastman community and the state of New Hampshire. Why has the ESC board with a long- term ESC board member who is currently and has been the ECA Board President, failed to take action to

properly inspect these lines? Is it or is it not in the public interest to do so and to validate that the lake is adequately protected from near-term permanent ecological danger?

RESPONSE: The sections of sewer lines that are cleaned and inspected are done at the recommendation of ESC's licensed operator, Water System Operators, Inc. (Henniker, NH). Regarding the section that runs from West Cove along the west side of the lake to South Cove, Joe Damour, the President and owner of WSO, has provided the following information - This is a force main of ductile iron pipe pressure rated for 350 psi. The total dynamic head (TDH) of the West Cove A pump station is rated for 34 feet, or approximately 80 psi, which would be at the low point near the pump station. Well under the design pressure of the pipe. There is no way to inspect the inside of the pipe as you would with a gravity system as a camera cannot be easily used without a complete draining and a way to continue pump station operation while internally inspecting the pipe. On an annual basis we walk the pipe line to check for any possible leaks. That is the best that can be done. The other check would be a decrease in flow to the headworks and any increase in pump run times which might indicate a blockage of some sort. There is new technology to clean these types of pipe lines but there have been some undesirable consequences from doing that. One new technology that appears to avoid most of the pit falls of the past is ice pigging. This does not however allow any kind of inspection.

Note: ice pigging is the process of cleaning pipes using an ice slurry, instead of the traditional method of forcing a solid object through the lines to clean them. The ice slurry does an effective job of removing waste residue in the lines without damaging the pipes. It also avoids the problems which can occur when cleaning the lines with a solid object, as the ice slurry will eventually melt and flow around any obstruction that can't be cleared.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-7

Witness: Brian Harding

REQUEST: In PUC order number 20, 390 of February 19, 1992 (DR 90□70) "an amount of \$10,010 was set up as a revenue requirement to fund the capital reserve amount of \$240,231. The company must notify the commission before making any expenditures out of this account. Your response seems to indicate that there was/is a PUC maximum annual allowable capital contribution of \$10,000/year for any and all capital improvements. This position would be in conflict with the above PUC order no. 20,390 which explicitly stated what the funds were to be used for. Why has the ECA board and the ESC board failed to address and resolve the matter in the public good?

RESPONSE: The Eastman Sewer Company has complied with PUC Order No. 20,390. The Order provides for the billing and collection of \$10,010 per year from the customers to fund the Capital Reserve, with the requirement that those funds be segregated in a separate account. That has been done. The Order further stipulates that the Company must notify the Commission before making any expenditures out of this account. That also has been done. The Capital Reserve has been used for its intended purpose, to provide for the needed replacement of capital items on an ongoing basis to ensure the effective operation of the system. When capital needs

have extended beyond the availability of funds in the Reserve, as was the case with the West Cove A and Headworks projects in 2009 and 2010, approval was sought from the community and the PUC to borrow the needed funds to complete the projects.

The PUC recognizes that large scale capital projects will likely have to be funded through borrowing. This can be seen in the Rate Schedule section of the current Tariff of the Eastman Sewer Company (authorized by NHPUC Order No. 25,259 dated August 4, 2011), which states "the annual rate of \$368.39 includes \$18.71 per customer for ongoing minor capital projects and \$95.12 per customer for repayment of principal and interest on the loan from Lake Sunapee Bank for major capital improvements." If you multiply the annual amount of \$18.71 by the 535 ESC customers, you arrive at the \$10,010 which is allowed to be collected by ESC for the "ongoing minor capital projects." Those funds are deposited in the Capital Reserve and all expenditures from the Reserve are approved in advance by the PUC. The Annual Report to the PUC includes the current and previous year-end balances of the Capital Reserve, as does the Audit report. The PUC report also contains information on Utility Plant in Service, Construction Work in Progress, and other capital related transactions, and the Commission has the opportunity to request additional information for any item or transaction they wish to examine further.

Finally, the annual ESC Audit Report and the Annual Report to the PUC are available to any Eastman owner (sewer customer or not) upon request. During the 11-plus years that ECA owned the Sewer Company prior to the proposal to sell the assets to the Village District of Eastman, we cannot recall any instances when concerns were raised by an owner which related to ESC accounting or the management of the ESC Capital Reserve.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-8

Witness:

REQUEST:

RESPONSE: In the original submission by Geraldine Logan, the "Request" section of 2a-8 is blank. Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-9

Witness:

REQUEST:

RESPONSE: In the original submission by Geraldine Logan, the "Request" section of 2a-9 is blank. Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2a-10

Witness: Brian Harding

REQUEST: On slide number four of the ESC proposal for a new structure presented November 17, 2012 you state that:

a. " The PUC regulates contributions to the capital fund (limited to \$10,000 per annum)"

b. "PUC does not allow ESC to increase rates to cover a capital project until that project is completed and all invoices submitted and approved".

Did not the PUC in order number 20.390 allow for a capital reserve account for purposes of replacing the original sewer plant? While the amount allocated and allowed for in that order was designated for a specific intent, the ESC has chosen to request the appropriation of these funds for alternative capital needs. Would it not have been prudent to update the amount required to replace the capital item in a timeframe consistent with the termination of its useful life? (A mechanism similar to the ECA capital reserve analysis and annual capital budgeting process would enable this.)

Did the ESC and ECA act in the public interest by failing to address the intended use of the authorized capital funding and by failing to submit an ESC comprehensive capital plan to the PUC? This plan would have included the required capital funds for a long time frame (10 years) as well as alternative funding sources.

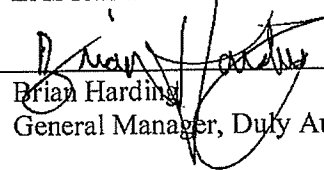
By failing to take such action, the ownership Party appears to have failed to meet the expected criteria of openness and transparency in consumer matters. Would you comment on how this decision served the public interest?

RESPONSE: The information provided in the response to 2a-7 directly addresses the points raised in this question.

Respectfully submitted,

EASTMAN SEWER COMPANY, INC.

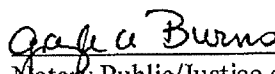
By:


Brian Harding

General Manager, Duly Authorized

STATE OF NEW HAMPSHIRE
COUNTY OF SULLIVAN

Subscribed and sworn to before me this 16th day of October 2013 by BRIAN
HARDING, General Manager of the Eastman Sewer Company, Inc.


Notary Public/Justice of Peace
My Commission Expires:

GAYLE A. BURNS
Notary Public - New Hampshire
My Commission Expires December 9, 2014

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2a

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-1

Witness: Maynard Goldman

REQUEST: When will that opinion be rendered? Would it not be in the interest of the public for that opinion to have been received before signing the purchase and sale agreement?

RESPONSE: The opinion was rendered in a September 17, 2013 letter from Daniel J. Connolly, Esq. (New London, NH). In his letter, attorney Connolly states this transaction is exempt from the real estate transfer tax pursuant to RSA 78-B:2.I, as involving a transfer of title to a village district.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-2

Witness: Maynard Goldman

REQUEST: Can you substantiate from any PUC authority why "it has always been our understanding that the PUC did not support or approve of significant capital reserves for utilities which is regulated?"

Given the extensive legal, board and business background of the Eastman sewer company board it would seem prudent as well as in the public interest to seek directly from the PUC an opinion on how to fund capital reserves and capital funds. The PUC has a well documented process to determine these matters and has indicated how funding can be done. This process is consistent with how the ECA Board of which you have been president for several years achieves its funding. Why did you choose not to utilize the same process to determine funding requirements and chose not to pursue the same funding approaches that ECA governance utilizes? Why did you fail to seek a formal opinion through the publicly defined PUC process?

RESPONSE: The initial capital reserve permitted by the PUC was \$10,000□ .any funds committed to the capital reserve need to come from fees collected from users. The fees charged to users were essentially the same for a period of 16 years□ some years prior to the transfer from the developer and some after the transfer. Our experience with requests for rate increases

indicates that it costs about \$20,000 for the process. If we had petitioned to increase the rates to put more money into the capital reserves we might not have been successful but even if we were the cost to accomplish this would have been significant against the rate base of about \$ 100,000. We have utilized a licensed professional systems operator who recommended needed improvements and we have hired outside professional consultants to evaluate the system and make capital recommendations (CLD Consulting Engineers, March 2008 report, Underwood Engineers, Inc., January 2013 report). The only difference between the Sewer Company process and the ECA process is that the Sewer Company hired an outside consultant to provide input as to the potential capital requirements and the options therefore. I am not aware that the PUC provides "formal opinions" about what they might and might not do in regard to possible funding requests. I question the relevance of this extended inquiry to the present proceedings.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-3

Witness: Maynard Goldman

REQUEST: Would you please transmit to me the December 2011 ESC updated capital project schedule? As of June 2013 what is your capital project schedule? Are there any capital items more than 30 years old and/or beyond their expected useful life that are not addressed in the current (end CY2012) capital project schedule? If any such items are not in the current schedule can you address why it is in the public interest to omit these items from a complete ESC capital improvement plan?

RESPONSE: Copies of the December 2011 and June 2013 capital project schedules are attached. The current capital project schedule includes capital improvements and replacements highlighted in the reports submitted by CLD Consulting Engineers (March 2008) and Underwood Engineers (January 2013), or recommended by Water System Operators. Some of the capital work recommended in the CLD report has already been completed. We are not aware of any significant capital items more than 30 years old and/or beyond their expected useful life that are not addressed in the current capital project schedule.

Project Description	Completed *				Estimated					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
1 West Cove B Pump Station (completed in 2008)	7,209									7,209
2 Headworks Project (completed April 2010)		41,520	195,690							237,210
3 West Cove A Pump Station Project (completed Nov. 2010)		13,746	121,878							135,624
4 Groundwater Discharge - Permit Compliance Project					TBD	TBD				
5 Upgrades at Holding Ponds Pump Station					20,000					20,000
6 Replace roof of main building at lagoons (aeration bldg.)					10,000					10,000
7 West Cove B Pump Station Upgrades							34,900			34,900
8 Treatment Plant Effluent Pump Station							70,425			70,425
9 Removal of Siphon Structure (Summit Drive)							20,000			20,000
10 Removal of Comminutor Building (Clearwater Drive)							15,000			15,000
11 Seal wet well at Lagoon Pump Station							20,000			20,000
12 Lagoon Aeration System Replacement								300,000		300,000
13 Holding Ponds Pump Station									41,860	41,860
14 Purchase of Spare Pump(s) and Variable Frequency Drive (VFD)									25,000	25,000
Total	7,209	55,266	317,568		30,000	-	160,325	300,000	66,860	557,185

* Costs for completed projects (numbers in shaded area) are not included in total column

Project Summary

- 4 Groundwater Discharge: Permit Compliance Project: implement necessary changes / upgrades to meet water quality standards specified in NH Groundwater Discharge Permit
Scope of work and estimate for engineering proposal currently being developed by Underwood Engineers (Oct. 2011)
- 5 Holding Ponds Pump Station: installation of new duplex controller, submersible pump and variable frequency drive
- 6 Shingles on roof of Aeration building are coming apart and need replacement
- 7 W.C. B Pump Station Upgrades: replace generator, install explosion-proof junction boxes & fencing, replace propane tank, purchase back-up pump
- 8 Treatment Plant Effluent Pump Station: Install chlorine injection system, replace control panel, add second vertical turbine pump with variable frequency drive (VFD)
- 9 Removal of unnecessary and potentially problematic siphon structure installed on main line serving Summit Drive
- 10 Removal of Comminutor Building: replace with concrete structure
- 11 Seal the wet well liner in the pump station adjacent to the aeration / lab building. Current wet well structure has small holes which have developed
- 12 Lagoon Aeration System Replacement: replace generator, installation of Submersible ChannelAire aerators, replace roof on aeration lab. Estimate for generator alone (30 kw) is \$16,000 + add'l. \$14,000 to install (MJ Hayward quote). Estimate to bring lagoon / aeration plant into code compliance is \$21,750 (MJ Hayward proposal # 11-107, dated 9/7/2011)
- 13 Holding Ponds Pump Station - replace flowmeter, replace pump, install chlorine monitoring equipment, replumb equipment
- 14 Purchase of Spare Pump(s) and Variable Frequency Drive (VFD): spare equipment to use as back up in the event that primary equipment fails

Project Description	Completed *					Estimated					Total
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	'14-'17
Headworks Building		41,520	195,690								
West Cove A Pump Station		13,746	121,878			9,855					
Groundwater Discharge - Permit Compliance Project					29,500	17,156	845,000				845,000
Piping upgrade and installation of flowmeter - Holding Ponds pump station					4,274						-
Repair of roof on Aeration Building (lagoons)					3,200						-
Replacement of lagoon blowers, motor, installation of D.O. probe & pipes					7,495						-
West Cove B Pump Station	7,209					2,354	34,900				34,900
Treatment Plant Effluent Pump Station								70,425			70,425
Removal of Siphon Structure (Summit Drive)									20,000		20,000
Removal of Comminutor Building (Clearwater Drive)									15,000		15,000
Seal wet well at Lagoon Pump Station									20,000		20,000
Lagoon Aeration System Replacement								275,000			275,000
Holding Ponds Pump Station										*	-
Purchase of Spare Pump(s) and Variable Frequency Drive (VFD)										25,000	25,000
Total	7,209	55,266	317,568		44,469	29,365	879,900	345,425	55,000	25,000	1,305,325

* Costs for completed projects (numbers in shaded area) are not included in total column

Project Summary

- 1 Design and construction of Headworks building on Clearwater Drive
- 2 West Cove A Pump Station upgrades: 2009 & 2010 - replaced generator, electrical panels and propane tank; installed VFD's and explosion-proof box for panel. 2013 - replaced pump
- 3 Groundwater Discharge: Permit Compliance Project: implement necessary changes / upgrades to meet water quality standards specified in NH Groundwater Discharge Permit
Costs to research viable alternatives, conduct site investigations, design and install drip dispersal system on ECA owned property. Assume construction in 2014
- 4 Holding Ponds Pump Station: Piping upgrade and new flow meter installed
- 5 Installation of new shingles over old shingles on roof of Aeration Building - Clearwater Drive
- 6 Replacement of two lagoon blowers and one blower motor. Also installed pipes and probe for measuring dissolved oxygen, and replaced man hole cover and frame on Summit Drive
- 7 W.C. B Pump Station Upgrades: replaced pump (2013), replace generator, install explosion-proof junction boxes & fencing, replace propane tank, purchase back-up pump
- 8 Treatment Plant Effluent Pump Station: Install chlorine injection system, replace control panel, add second vertical turbine pump with variable frequency drive (VFD)
- 9 Removal of unnecessary and potentially problematic siphon structure installed on main line serving Summit Drive
- 10 Removal of Comminutor Building: replace with concrete structure
- 11 Seal the wet well liner in the pump station adjacent to the Aeration Building
- 12 Lagoon Aeration System Replacement: replace generator, installation of Submersible ChannelAire aerators. Estimate for generator alone (30 kw) is \$16,000 + add'l. \$14,000 to install (MJ Hayward quote)
Estimate to bring lagoon / aeration plant into electrical code compliance is \$21,750 (MJ Hayward proposal # 11-107, dated 9/7/2011)
- 13 Holding Ponds Pump Station - replace flowmeter, replace pump, install chlorine monitoring equipment, replumb equipment. Est. of \$42,000 - not needed if no longer spray irrigating
- 14 Purchase of Spare Pump(s) and Variable Frequency Drive (VFD): spare equipment to use as back up in the event that primary equipment fails

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-4

Witness: Maynard Goldman

REQUEST:

RESPONSE: In the original submission by Geraldine Logan, the "Request" section of 2b-4 is blank. Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-5

Witness: Maynard Goldman

REQUEST: I am resubmitting the following question since it is my perspective that you have not answered as explicitly addressed in PCA board choice. Furthermore the question also highlights the fact that the ECA golf committee members are directly voted onto the golf committee by all golf members. The concept of a three-member sewer company advisory board is that the members of that advisory committee would be ☐appointed☐by the VDE commissioners with no direct accountability to sewer users. Would you agree that golf members are accorded greater say through direct vote of representation where sewer users have no direct vote on representation?

RESPONSE: I do not see the connection between the golf operation at Eastman which is a community amenity owned by ECA, open to the general public and which competes for customers with many other golf courses throughout the area and the Sewer which is servicing about 535 users within Eastman. As previously stated the golf Committee makes ☐recommendations☐for golf fees after extensive consultation with the GM and the golf staff; those fees are reviewed by the Finance and Budget Committee (appointed) and then brought to the ECA Board for a final vote. There is opportunity for input at all levels from golfers and non-

golfers alike. In addition I would reiterate that the golf committee, including the three person executive committee, can be terminated by the ECA Board at any time.

I would also add that to the best of my knowledge there was not a single sewer user who raised a question about rates or maintenance and/or capital reserve issues between the time of the purchase of the system from the developer in 2001 and the presentation to the Community of the possible sale to the VDE in 2013. So, my direct answer to your question, is that I do not think that an appointed advisory committee is necessarily less representative than an elected group such as the golf committee.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-6

Witness: Maynard Goldman

REQUEST: Would you be open to the creation of an ECA sewer committee for an interim period of three years elected by all Eastman sewer owners/users to enable more direct participation on the part of the sewer users as to how the Eastman sewer company could best address the complex issues currently facing the sewer company and needs of all parties? If not why not?

RESPONSE: I have no personal objection to the election of a group but do not know whether that is possible under the VDE Regulations.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-7

Witness: Maynard Goldman

REQUEST: Regarding the November 2012 Eastman Forum, the ESC president and one of the VDE commissioners published and the ECA governance mailed a document purporting to be a summary of "minutes" of that November session. You have stated in your 9/12/13 response to my request 1b-7 that "the ECA Board has not established rules for forums that it hosts or sanctions. Minutes are not taken nor is there any formal documentation of what was said." Was that document represented as an official representation of what occurred at that session? Was this not formal documentation? In authorizing the mailing of that document by the ECA governance on what is an acquisition by a public entity was it not implied that this document met the public information act requirements? The subject matter of the July forum was a public matter for VDE members of that public entity. As the principal representative of the seller (ECA) why would you authorize a private meeting for the VDE members which ought to have been a public meeting?

RESPONSE: The document to which you refer was an attempt to provide a summary of what transpired at the meeting for the information of those who could not attend. I do not know what you mean when you say "public information act." However, if you refer to the NH Open Meetings Law this applies to government bodies and does not include the ECA. The July forum

was a matter for ALL Eastman residents. You may recall that members of the VDE (who include most of the Eastman residents) voted twice to approve the sale. I have no authority to approve anything for VDE members. I supported a PUBLIC meeting for ALL Eastman residents because I believed that it was a matter concerning ALL of its residents as it had for 40 years.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Geraldine Logan Set 2b

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Geraldine Logan 2b-8

Witness: Maynard Goldman

REQUEST: If a private governance such as ECA provides erroneous information to its members, does it not have a responsibility to correct those errors on a timely basis to everyone that it distributed the erroneous information to by at least the same channels that the erroneous information was sent?

RESPONSE: We do our best to provide current and correct information. This general question without a specific reference is immaterial, irrelevant and inappropriate.


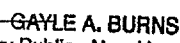
Respectfully submitted,

EASTMAN COMMUNITY ASSOCIATION

By: 
Maynard Goldman
President, Board of Directors, Duly Authorized

STATE OF NEW HAMPSHIRE
COUNTY OF SULLIVAN

Subscribed and sworn to before me this 16th day of October, 2013 by MAYNARD GOLDMAN, President, Board of Directors of the Eastman Community Association.


Notary Public/Justice of Peace
My Commission Expires:  GAYLE A. BURNS
Notary Public - New Hampshire
My Commission Expires December 9, 2014

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-1

Witness: William S. Weber

REQUEST: I am repeating the following question in the public interest. In your costing assumption presented at an ECA member-only "open form" of 7/24/13 you stated "as much as \$8000 each year (slide #10) will be saved in unnecessary audit cost. Can you please provide the financial calculations as to how you arrived at that number? As a public official the aforementioned was presented to the VDE voters. The public has a right to know if the stated amount can be substantiated.

RESPONSE: The Village District of Eastman (VDE) District Manager (William Weber) spoke to the accountant Greg Colby of Plozdzik and Sanderson who has performed the required municipal audit of the VDE for multiple years and asked for a rough estimate of the cost of future audits if the sewer operation was added as a separate operating department under the VDE. Mr. Colby stated that he thought the future two department audit would be in the range of \$12,000, based on a one district operation. If there were two separate districts, one water and one waste water, each district would need to budget \$10,000 for a total of \$20,000, or a savings of up to \$8,000. That difference was used in the 7/24/13 presentation.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-2

Witness: William S. Weber

REQUEST: I do not find anything in your answer to my request #1 □ 2 that addresses how exactly you will realize the cost-saving you have stated above. I believe that it is in the public interest to provide an explicit explanation.

RESPONSE: The primary reason of the propose acquisition of the Sewer Company is to transfer the operation of the sewer to a municipal format. Generating savings in the joint operating costs are a secondary benefit, not the primary objective. The primary objective is to reduce the cost and time delays associated with raising the required capital to undertake the upgrades to the system that are required by NHDES or the aging of the original equipment. The true final savings are unknown, but we believe there will be potential savings associated with a combined municipal operation. The Village District of Eastman has served the community in a cost effective manner for many years and we intend to do the same for the portion our community served by the sewer system. In our opinion the decision of the PUC to allow the transfer should not be based on any potential savings in the operating costs, but rather on the mechanisms available to a municipality, and the associated cost savings, to raise the capital needed to repair

and upgrade the wastewater system. In the original submission by Robert F. Logan, there is no Request 2-7. Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-3

Witness: William S. Weber

REQUEST: Given my own time constraints and the probability that the legislative documents to which you have referenced me in your answer to my request 1-2 are verbose, I will need additional time to research the specific language as to how you arrived at your response to my request # 1-3. It would have been helpful had you chosen to extract the explicit verbiage that you used for your interpretation. It would also contribute to expediting the process as you and the joint petitioners have requested. However I will wade through it as time permits. It would appear that the burden you have placed on the intervenors to review all the verbiage pertaining to "financial accounting for Village Districts" is an obfuscation of the joint petitioners request to expedite.

RESPONSE: This is statement of opinion, no response is appropriate.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-4

Witness: William S. Weber

REQUEST: I have participated both as a principal and as an advisor in numerous proposed and consummated mergers and acquisitions in a variety of industries and geographies. More than 40% of the proposals were rejected by the acquiring party on the basis of discovery by the independent buyer and due diligence by the buyer and buyers agents both financial and technical. Clearly my experience is substantially different than yours seems to be. Neither I nor 90% of the public would buy a 40-year-old home without a comprehensive home inspection by a buyer's representative. In this case the VDE acquisition would relieve the ECA governance of its fiduciary responsibilities without evaluating how well it has fulfilled that responsibility in over 12 years of ownership. Would you disagree?

Mr. Bernaiche's appraisal document does not present itself as an independent and comprehensive engineering analysis — in fact Mr. Bernaiche's report explicitly states that an engineer did not participate in the analysis. It is therefore not a consideration for this request.

The analysis done by Underwood is comprehensive however it is focused only on some of the components of the capital infrastructure. Were a similar analysis performed on all of the sewer Company capital, particularly that portion of capital which has already experienced three

quarters or more of its expected useful life, it would address my concern if that party were the hired by the buyer as the buyer's agent

Furthermore, Mr. Bernaiche's Report contains the following caveat in item #9 of the section labeled "identification of assumptions and limiting conditions" - 9. "We have not been provided a hazardous conditions report nor are we qualified to detect hazardous materials. Therefore, evidence of hazardous materials which may or may not be present on a property was not observed. As a result, the final opinion of value is predicated upon the assumption that there is no such material on any of the properties that might result in a loss or change in value."

The joint petitioners have repeatedly stated that one of their objectives is to ensure the protection and quality of the lake. Can you explain how the failure of the VDE to perform buyer due diligence on those sewer capital components which would cause hazardous-waste to damage Eastman Lake is in the public interest?

RESPONSE: The Village District of Eastman understands and accepts that the Eastman Sewer system has been underfunded and is in need of capital to undertake both maintenance and replacement of aging equipment, and to fund system improvements in response to NHDES regulatory permit requirements. In our opinion the prior engineering reports prepared by the consultant engaged by the Sewer Company, and the correspondence with the NHDES regarding the most recent renewal of the Discharge Permit provided sufficient information on the condition and needs of the system. The appraisal done by Mr. Bernaiche was in our opinion not a significant document, given the limitations placed on his appraisal. The "hazardous materials" noted in the report is a reference to known contaminates, or PCS, (Possible Contaminate Sites) known and mapped by the Department of Environmental Services (DES). As of October 2013

there is no record of the Eastman Sewer Company, as being identified as one of these sites. We as members of the community believe that the best way to protect Eastman Lake is to ensure that Pump Stations at West Cove A and B are in working condition with appropriate backup capacity and instrumentation. The engineering reports include a series of recommended actions at those locations, and but the community can only move forward when the funding is available. In our opinion, the merger into the VDE is the pathway to provide that needed funding. The decision to take on the responsibility of the sewer system was not based on any benefit that the acquisition will provide to the VDE. It was based on providing a service to the community. In our opinion spending funds on consulting investigations that were not approved by our Annual Meeting for the purpose of additional due diligence, was not an option or a requirement in this case.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-5

Witness: William S. Weber

REQUEST: No current independent engineering analysis of the West Coast to South Cove sewer main, which is more than 40 years old and has a high likelihood of deficiency based on age and environment, has been done. Why do you think an engineering evaluation, as agreed to with PUC order number #24.368 is not in the public interest?

Furthermore, the 2007 CLD Engineering Report that you presented to me as due diligence --in the section labeled "Recommended Schedule of Improvements" under the Topic: Video Analysis and Inspection of Collection Systems, the CLD consultants Recommended Schedule is marked "IMMEDIATE." In reviewing the "undated" Eastman Sewer Company Project List which shows a dated February 2013 Capital Project Schedule with an amount of \$1,305,325 (represented as the ESC needed capital funding through 2017) I did not see the video inspection itemized for the years shown. Why has this item previously agreed to with the PUC in order #24.368 and labeled by CLD in 2007 as an "Immediate Priority" been omitted in capital funding for more than a decade?

RESPONSE: The West Cove to South Cove sewer is primarily a 4-inch diameter force main. The Eastman Sewer Company made their decision on where to undertake video surveys. This

Exhibit #17

was done in many of the larger diameter gravity sewer mains. Assuming the Village District does eventually take over the management of the sewer system we will need to reassess what if any inspections of the force main are appropriate and feasible. As a municipality the Village District will be able to accumulate reserve funds that can be used for both investigations and remedial upgrades where necessary.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-6

Witness: William S. Weber

REQUEST: In your response to my question 116, the documents you have referenced me to, indicate that you and the VDE have collected various seller documents done on behalf of the seller for the seller's ongoing operation of a private sewer company. I see no documents which demonstrate independent buyer or buyer's agent evaluation of the current financial or engineering status. Furthermore my review of the documents you have put forth as a buyers due diligence omit the following:

1). A correlation between the prepared "2008 CLD Capital Improvements Report" and an objective buyer's evaluation of the state of the sewer capital in 2013 with current costs and risk assessment based on today's economics and status.

2). I see no updated correlation between the CLD 2008 Engineering Report, the ESC 2011 Capital Report and the "Reduced in scope and time span" 2012 ESC Capital Project Schedule.

Why do you think it is in the public interest to forego this analysis until after the public VDE members, have assumed the responsibility for any festering undiscovered issues? Do you think it is in the public interest to not have reasonable capital reserve funds to address the incremental risk of failure as Mr. Bernaiche's report cites?

Exhibit #17

RESPONSE: The updating of current condition summaries and maintenance priorities is an ongoing process. The study prepared by CLD in 2008 needs to be updated to reflect the work that has been completed and the passage of time. But it requires funds that the Sewer Company does not have available. We believe the issues identified by CLD still need to be addressed, but that given the challenges and costs associated with a sewer user rate increase under the PUC, they can be more realistically addressed after the sewer operation is transferred to municipal organization.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-7

Witness: William S. Weber

REQUEST:

RESPONSE: In the original submission by Robert F. Logan, there is no Request 2-7. Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-8

Witness: William S. Weber

REQUEST: You have stated that "the expense associated with having another accounting firm evaluate the financials of the ESC was not justified given that all financial reporting for the ESC audit and annual report is done numerous times by more than one CPA firm for internal control, public records, Public Utilities Commission, Federal taxation form 1120 US corporation income tax return, and in the New Hampshire Department of revenue administration utility property tax information update. In the reports I have reviewed at the ESC website for the most recent six years (FY 2007 –2012) the only CPA firm that has performed an ESC audit and I think overseen or prepared various state and federal required tax documents has been Seeley & Schultz. Can you provide the specific firm, dates and documents that you cite in "done numerous times by more than one CPA firm"?

The explicit legal statements on an audit indicates the audit itself is not a validation of the reports content but more a random validation of the processes used to record the accounting information on the part of the audited entity: "In making risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we expressed no such opinion."

In recent years the considerable flaws of GAAP and of accounting firms' auditing practices lead to the passing of the Sarbanes-Oxley law. This law was put in place to protect the public from numerous grievances carried out by several different accounting firms who claimed to comply with GAAP but misstated the financial state of many entities. Almost all accounting firms needed to re-evaluate and modify their business practices. Anderson went bankrupt as did numerous other accounting firms. As a result while it is not required of private 501(c) 4 firms to meet the Sarbanes-Oxley regulations many entities not subject to Sarbanes-Oxley, are implementing voluntarily compliance with those regulations or portions of those regulations.

However more to the point, in this case, have you done a cost-benefit analysis to determine why the expense associated to evaluate the financials was not justified and not in the public interest?

Such an evaluation would include a current comprehensive analysis of capital valuation, current analysis of financial status and trends and a current analysis of recent ESC financial reports.

Perhaps you are aware that ECA governance has chosen not to comply with Sarbanes-Oxley and through an ECA Board President initiative and his sole authority has totally reengineered the ECA financials over the past three years. In fact for the fiscal year 2013 the ECA general manager has stated that he cannot provide previous year comparisons due to the irreconcilability of the new community financial reports. The ECA auditing firm for the fiscal years 2010, 2011, 2012 and 2013 was the same as it had been for many years prior to these fiscal

Exhibit #17

years. This reengineering of ECA accounting reports was accomplished through restricted, private governance meetings. In my experience, when an entity totally revamps its accounting records and reports, the resulting reports warrant a need for closer inspection. Claiming that a 501(c) 4 entity has become an "enterprise" hardly seems justification for a total accounting restructuring. How did you determine that this accounting restructuring had no impact on the financial records of an ECA wholly-owned company?

All public and almost all private firms which have gone bankrupt in the past decade have had GAAP audited reports. They are meaningless in the context of assessing the financial viability of an entity nor are they really represented to achieve that objective. Why have you decided that it is not in the public interest to fully evaluate and disclose the extensive financial liability that the ESC represents to the VDE members and the public? Would it not be in the public interest to restate the ESC financial reports for the most recent two years consistent with the format that the VDE uses for its audited reports?

RESPONSE: As stated previously we do not believe the level of third party financial evaluation that you suggest is appropriate for this situation. We accept the finding of the professional accountants who have prepared the reports for the Eastman Sewer Company to be sufficient for our need. We have acknowledged from the beginning that the sewer system has been underfunded and needs an alternate means to raise capital.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-9

Witness: William S. Weber

REQUEST: Can you please explain how your answer to my request 1 ☐9 is in the public good or interest? If the proposed acquisition of the ESC by the VDE is consummated, it means a public entity is acquiring the assets and liabilities of the ESC. How then would the VDE contractual commitment of the sale of a municipal sewer district to a private entity serve the public good in the public interest particularly when that private entity has chosen not to comply with public disclosure laws like right to know laws and numerous other laws that protect the consumer and the public?

RESPONSE: The proper operation and funding of the Eastman sewer system serves the interest of public. We believe that transferring operations to a municipal organization will improve the transparency of those operations and provide more efficient methods to raise the user rates and fund the needed upgrades or repairs.

Exhibit #17

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-10

Witness: William S. Weber

REQUEST: 10-a. As I have stated previously the sellers planned capital improvements are incomplete and not reconciled versus the CLD 2008 report as well as apparently omitting the total video inspection of the sewer company mains. There is no independent buyer audit of the ESC capital plan amounts so I think the amounts are most likely incomplete and perhaps understated. Furthermore, allowances for an incremental capital reserve given the aged and capital infrastructure do not exist in the plan. Are you stating that with a high degree of confidence, say 90%, that it is in the public interest that ESC will require no more than \$1,305,000 for the period 2013 -2017?

10-b. Are you stating that [since there has been no right negated of any entity through the date of the signed purchase and sale agreement as no entity existed on that date May 29, 2013 that could have a more preferred status than that of the ECA -a private enterprise] that the failure of such an entity to exist as of May 29, 2013 made this clause in the signed purchase and agreement in the public interest even if any such entity could exist at a future date? Can you demonstrate how such a pre-emptive agreement is in the public interest and in the best interest of the Sewer Owners who will pay for all future capital improvements?

RESPONSE: (10-a): The long term financial needs of the sewer system can only be estimated based on the information at hand. At this time we believe an investment of approximately \$1.3 million over the next four to five years, will address the known issues. We will reconsider each of the capital expenditures proposed by Underwood or CLD before proceeding, but we informed the sewer user community that rate increases are required to fund the system needs to replace aging equipment and to meet new regulatory criteria.

(10-b): The language of the P&S was prepared by legal counsel representing both parties, and the agreement is contingent on all the requirements of the transfer being met at a non-specific date): in the future, including the petition to the PUC. We believe the transfer to the existing VDE municipal organization is in the best interest of the both the entire Eastman community and the Sewer Users.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-11

Witness: William S. Weber

REQUEST:

RESPONSE: In the original submission by Robert F. Logan, there is no Request 2-11.

Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-12

Witness: William S. Weber

REQUEST:

RESPONSE: In the original submission by Robert F. Logan, there is no Request 2-12.

Therefore, no response can be provided.

Eastman Sewer Company, Inc.

DW 13-171

Responses to Robert F. Logan Set 2

Data Request Received: 09/26/13

Date of Response: 10/17/13

Request No. Robert F. Logan 2-13

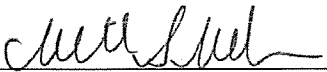
Witness: William S. Weber

REQUEST: Regarding how many properties are paying the VDE precinct tax that are not receiving VDE services: I think the answer to this request is in the public interest since it is indicative of how well the VDE is fulfilling its current public responsibilities to provide water to its customers and to bill their customers in an open and transparent way and that conforms to the public's right to know. Likewise, if members of the public are being billed for a service they are not receiving why do you think the sharing of this public information is not in the public interest? Depending on the circumstances, would it not be possible that similar "justification" could be used to bill non-sewer users who would not be receiving sewer services?

RESPONSE: This is an issue for the Village District to work out with any property owners who conclude they are inappropriately being taxed. It has no bearing on the petition before the PUC to allow the Eastman Sewer Company to transfer its operation to the Village District.

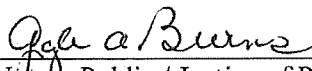
Respectfully Submitted,

VILLAGE DISTRICT of EASTMAN

By: 
William S. Weber
General Manager, Duly Authorized

STATE OF NEW HAMPSHIRE
COUNTY OF SULLIVAN

Subscribed and sworn to before me this 16th day of October 2013 by William S. Weber,
General Manager, Village District of Eastman

 GAYLE A. BURNS
Notary Public / Justice of Peace Notary Public - New Hampshire
My Commission Expires: My Commission Expires December 9, 2014