STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 22, 2022 - 9:09 a.m.

[Hybrid hearing conducted via Webex]

RE: DW 20-184
AQUARION WATER COMPANY OF N.H., INC.
Request for Change in Rates
(Hearing)

PRESENT:
Chairman Daniel C. Goldner, Presiding
Commissioner Carleton B. Simpson

Tracey Russo, Clerk/Webex Host

APPEARANCES:
Reptg. Aquarion Company:
Daniel P. Venora, Esq. (Keegan Werlin)
Jessica Chiavara, Esq. (Eversource)

Reptg. Town of Hampton:
Susan A. Lowry, Esq.

Reptg. Town of North Hampton:
Justin C. Richardson, Esq.

Reptg. Residential Ratepayers:
Julianne M. Desmet, Esq.
Office of the Consumer Advocate

Reptg. Department of Energy:
Christopher R. Tuomala, Esq.

Court Reporter: Susan J. Robidas, NH LCR No. 44

I N D E X

WITNESS PANEL: DEBRA A. SZABO
JOSIE A.M. GAGE
JAYSON P. LAFLAMME

I N D E X (CONT'D)

I N D E X (CONT'D)

P R O C E E D I N G S

CHAIRMAN GOLDNER: Okay. Good morning, everyone. I'm Commissioner Goldner. I'm joined today by Commissioner Simpson. We're here today for a hearing in Docket 20-184 regarding Aquarion Water Company's request for change in rates.

Let's take appearances, beginning with Aquarion.

MR. VENORA: Good morning, Chairman Goldner and Commissioner Simpson. Dan Venora from the law firm Keegan Werlin, joined virtually by Jessica Chiavara of Aquarion.

CHAIRMAN GOLDNER: Okay. Thank you.

And we'll move to the Town of Hampton.

MS. LOWRY: Good morning. Attorney Susan Lowry here for the Town of Hampton.

CHAIRMAN GOLDNER: Thank you.

And the Town of North Hampton.

MR. RICHARDSON: Good morning, Mr. Chairman, Commissioner Simpson. Justin Richardson here for the Town of North

Hampton.

CHAIRMAN GOLDNER: And moving to the Office of Consumer Advocate.

MS. DESMET: Good morning, Commissioners. Julianne Desmet here with the Office of Consumer Advocate on behalf of residential ratepayers. And also on the witness panel today for the OCA is Josie Gage, the director of economics and finance.

CHAIRMAN GOLDNER: Very good.

And finally the New Hampshire Department of Energy.

MR. TUOMALA: Good morning, Commissioners. Chris Tuomala for the New Hampshire Department of Energy. With me, in the witness box, is Jayson Laflamme. He's the assistant director of the water group within the Regulatory Support Division at the Department of Energy. And joining me at counsel table is Anthony Leone and Robyn Descoteaux, both analysts within that division who worked on this docket.

CHAIRMAN GOLDNER: Very good.

And moving on to preliminary

matters, it looks like from the seating arrangement that everyone is comfortable with the three witnesses serving as a panel today?

MR. VENORA: Yes, sir. And I should note for the record, we have Deb Szabo from Aquarion as the Company's witness on the panel.

CHAIRMAN GOLDNER: Very good, very good. Everyone's comfortable with that model? Okay. Very good.

MR. VENORA: Yes.

CHAIRMAN GOLDNER: So Exhibits 6 through 22 have been prefiled and premarked for identification. Any material identified as confidential in the filings will be treated as confidential during the hearing.

Is there anything else that we need to cover regarding exhibits?

MR. VENORA: No.

CHAIRMAN GOLDNER: Thank you.

Are there any other preliminary matters before we have the witnesses sworn in?

[No verbal response]

CHAIRMAN GOLDNER: No? Seeing none --

MR. TUOMALA: No.

CHAIRMAN GOLDNER: Thank you.

So let's proceed with the witnesses.

Ms. Robidas, could you please swear in the panel.

(WHEREUPON, DEBRA A. SZABO, JOSIE A.M. GAGE and JAYSON P. LAFLAMME were duly sworn and cautioned by the Court Reporter.)

CHAIRMAN GOLDNER: All right. And Mr. Venora, would you like to begin?

MR. VENORA: Yes. Thank you.

DIRECT EXAMINATION

BY MR. VENORA:

Q. Ms. Szabo, would you please state your full name title and business address.

A. (Szabo) Sure. Debra Szabo. I'm the director of rates and regulation for Aquarion Water Company of Connecticut, located at 600 Lindley Street in Bridgeport, Connecticut.

Q. And did you previously submit prefiled direct testimony and corresponding attachments as part of the Company's initial filing in this docket on December 18th, 2020, which are marked on the joint exhibit list as Exhibit No. 7?

A. (Szabo) Yes, I did.

Q. And were the testimony and the exhibits prepared by you or under your direction and control?

A. (Szabo) Yes.

Q. And do you have any changes or corrections to make to Exhibit No. 7 at this time?

A. (Szabo) No, I do not.

Q. And do you adopt that exhibit as part of your sworn testimony today?

A. (Szabo) Yes.

Q. Are you also familiar with the prefiled direct testimony and corresponding attachments sponsored by the other company witnesses as part of Aquarion's initial filing in this docket that are marked as Exhibit numbers 6 and 8 through 13 of the joint exhibit list?

A. (Szabo) Yes.

Q. And would you please verify for the record that the copies of those exhibits so marked in advance of today's hearing are accurate copies of the materials filed by Aquarion in its initial filing on December 18th, 2020?
A. (Szabo) Yes, they are.
Q. Thank you. And lastly, are you familiar with the Settlement Agreement in this docket by and between the Company, the Department of Energy, the Office of Consumer Advocate, and the Towns of Hampton and North Hampton that was executed and filed with the Commission on June 1, 2022?
A. (Szabo) Yes.
Q. And is the document marked as Exhibit 22 on the joint exhibit list an accurate copy of the Settlement Agreement?
A. (Szabo) Yes, it is.
Q. Just generally, Ms. Szabo, can you comment on whether the Company is satisfied with the terms of the Settlement Agreement, in that they provide a reasonable outcome of its petition in this docket?
A. (Szabo) Yes, for several reasons. From the

Company's perspective, the Settlement Agreement strikes a reasonable balance in addressing Aquarion's issues in this docket and its need for rate relief. The Company listened very carefully to the concerns raised by the other parties at the tech sessions and in testimony and worked very hard to find common ground for a Settlement. The Settlement Agreement came about through many hours of intensive negotiations among the parties, which included compromises from the Company's initial positions that we believe were reasonable to achieve a comprehensive Settlement as shown in the final agreement. On balance, the Settlement Agreement represents a reasonable outcome based on the give and take of that process. We are especially pleased to be able to present to the Commission a Settlement that includes all of the parties, which resolves all issues on the Company's petition for new permanent rates.

Q. Lastly, Ms. Szabo, does the Company support the Settlement Agreement and recommend its

approval by the Commission as just, reasonable and in the public interest?
A. (Szabo) Yes.
MR. VENORA: Chairman Goldner, that's all we have in the way of direct.
CHAIRMAN GOLDNER: Thank you. Attorney Desmet.
MS. DESMET: Yes, thank you.

DIRECT EXAMINATION

BY MS. DESMET:
Q. Good morning, Ms. Gage. Can you please state your name and employer and your position.
A. (Gage) My name is Josie Gage. I'm employed by the Office of the Consumer Advocate, and my position is director of economics and finance.
Q. And can you please describe your responsibilities in that position?
A. (Gage) In that position I serve the interests of residential ratepayers. I provide economic and financial analysis on rate cases and other filings submitted to the Commission.
Q. Okay. And have you previously testified

before this Commission?

A. (Gage) Yes.

Q. And referring to Exhibit 19 and your testimony contained therein, do you submit -- or I'm sorry.

Did you submit prefiled testimony in this case?

A. (Gage) Yes.

Q. And is Exhibit 19 in fact your prefiled testimony?

A. (Gage) It is.

Q. And was that prepared by you or under your direction?

A. (Gage) Yes, it was.

Q. And do you have any corrections to your testimony you wish to make today?

A. (Gage) Not today.

Q. And today do you adopt that as part of your sworn testimony?

A. (Gage) I do.

Q. And the OCA is a party to this Settlement before the Commission. Why did the OCA join this Settlement?

A. (Gage) The OCA believes that the revenue requirement that we're settling on represents a compromise that is advantageous to ratepayers and that the rate base is prudent, used and useful in this case. We believe that the overall weighted average cost of capital of 7.54 percent, with a return on equity of 9.1 percent, is fair to both the Company and residential ratepayers.

We also found three particular settling points in this case to be important to residential ratepayers: One, that the ROE was a negotiated, settled figure; and another, that the short-term debt was removed from the capital structure of the Company; and also that the Company was willing to continue monitoring wells at a much lower cost to customers.

Q. And if I could just -- I know you just said that the ROE is a negotiated Settlement term. So with regard to the last two, the short-term debt and well monitoring, if you could describe why that was important to the OCA.

A. (Gage) The short-term debt removal was important to the OCA because of the fact that the Commission doesn't regulate short-term debt rates. So it's not really appropriate ratemaking treatment to have it included in a capital structure that the Commission is deciding upon, where they didn't decide upon that short-term debt rate. In the past, in other jurisdictions, I've seen companies use their AFUDC rate instead of having the short-term debt in capital structure. So it might be a two-step process for New Hampshire to follow in that vein. But, you know, even if it weren't to, it still doesn't make sense to really have short-term debt included. So it's nice to see that pulled out.

And with regard to well monitoring, those programs, once they're gone, are hard to reinstate. And this one, for a very low, minimal cost, is able to stay in place and, you know, continue to protect residential ratepayers.

This Commission just reviewed a case where another water company destroyed some local wells by over-pumping. And so well monitoring programs I think is pretty important to continue to operate in this jurisdiction. So it's important to us for that to stay somewhat in place as a check and balance. Also, it adds to the Company's case that they aren't mismanaging their wells.

Q. And as far as this Settlement Agreement, do you feel or believe that the Commission should approve the Settlement Agreement as presented?

A. (Gage) Yes.

MS. DESMET: I have no additional questions.

CHAIRMAN GOLDNER: Okay. We'll move to Attorney Tuomala.

MR. TUOMALA: Thank you, Mr. Chairman.

DIRECT EXAMINATION

BY MR. TUOMALA:

Q. Mr. Laflamme, could you please state your full name for the record.

A. (Laflamme) Jayson Laflamme.

Q. By whom are you employed?

A. (Laflamme) I'm employed by the New Hampshire

Department of Energy.
Q. And what's your position at the Department?
A. (Laflamme) I'm the assistant director of the water group within the Regulatory Support Division.
Q. Could you please describe for the record your previous work experience at the Public Utilities Commission and then the Department of Energy.
A. (Laflamme) Yes. I joined the Public Utilities Commission in 1997 as a utility examiner in the Commission's Audit Division. In 2021 I joined the Commission's Gas and Water Division as a utility analyst and was eventually promoted to senior utility analyst. In 2018 I became assistant director of the Commission's Gas and Water Division. And in July of last year my position was transferred to the newly-created Department of Energy.
Q. And could you briefly describe your responsibilities in this new position.
A. (Laflamme) I directly supervise the Water staff of the Regulatory Support Division and

primarily oversee the course of examination for water and wastewater dockets that are filed with the Commission. I also directly examine select water and wastewater dockets that come before the Commission.

Q. Mr. Laflamme, have you previously testified here at the Public Utilities?

A. (Laflamme) Yes, I have.

Q. Mr. Laflamme, could you further describe the specific involvement which you had within this docket.

A. (Laflamme) Yes. I oversaw the examination of the Company's rate filing by the DOE's water group and consultants. This included a discovery process relative to formulating data requests and reviewing data responses. In addition, I participated in a number of technical sessions. Further, I also participated in the drafting of the Settlement Agreement that is being presented today. I have also materially participated in a number of previous dockets involving Aquarion, including its last general rate case, DW 12-085; its intervening WICA filings, including its most recent, DW 18-161; and its income tax investigation filing, DW 18-054.

Q. If you would please turn your attention to the exhibit marked for identification as Exhibit No. 22. Do you have that document in front of you, Mr. Laflamme?

A. (Laflamme) Yes, I have.

Q. And can you please identify this document for the record?

A. (Laflamme) Yes. This is the Settlement Agreement reached by all parties in this proceeding.

Q. I believe you previously stated this. But did you assist in the preparation of this document?

A. (Laflamme) Yes, I did.

Q. Do you wish to make any corrections or revisions to Exhibit No. 22?

A. (Laflamme) No, I do not.

Q. And is the information contained in Exhibit No. 22 true and accurate to the best of your knowledge?

A. (Laflamme) Yes, it is.

Q. Do you believe that the permanent rates and the proposed step adjustment contained in the Settlement Agreement are just and reasonable and serves the public interest, Mr. Laflamme?
A. (Laflamme) Yes. The Department believes that the Settlement Agreement presented today will produce just and reasonable rates that result in a fair balancing of the interests between Aquarion and its customers.

First, this is a global Settlement agreement amongst all the parties that participated in this rate proceeding, including the DOE, the OCA, the Towns of Hampton and North Hampton, along with the Company itself. As such, it represents a compromise that effectively satisfies the wide array of positions established by those parties in this proceeding.

From the DOE's point of view, the revenue requirements proposed in the Settlement Agreement are significantly less than those originally requested by the Company. The Company's original filing proposed an initial revenue increase of approximately $1.4 million, or 18 percent. The Company also proposed three step increases, totaling an additional $2.1 million, or 27.8 percent. The Company's combined proposal would have resulted in an increase of approximately $3.5 million, or 45.8 percent; by comparison, the Settlement Agreement proposes an initial revenue decrease of approximately $305,000, or negative 4 percent. That will result in a credit back to customers. This will ultimately be combined with only one step adjustment not to exceed $1.56 million, or 20.5 percent. The resulting net increase in revenues proposed by the Settlement Agreement will be approximately $1.26 million, or 16-1/2 percent.

Additionally, the DOE feels that the proposal contained in the Settlement Agreement to make the WICA a permanent rate mechanism will achieve positive results for the Company and its customers. It incentivizes the Company to make the necessary infrastructure replacements and a system to maintain and improve reliability. It will also mitigate rate shock to its customers relative to future general rate proceedings. Further, the DOE anticipates that Aquarion's general rate proceedings will be less frequent than under a scenario in which there's no WICA adjustment.

Overall, the DOE believes that the Settlement Agreement will provide the Company with the revenues it needs to maintain viability and effectively provides safe and adequate water service to its customers through rates and other charges that are not unduly burdensome to those it serves.

Q. So Mr. Laflamme, to sum it up, do you recommend that the Commission approve the Settlement Agreement for permanent rates and the step adjustment, and that approval will set just and reasonable rates for its customers?

A. (Laflamme) Yes.

Q. Does the Department of Energy support approval of the Settlement Agreement by the Commission, as it is just and reasonable and

serves the public interest?
A. (Laflamme) Yes.
Q. Does this conclude your testimony?
A. (Laflamme) Yes, it does.
Q. Thank you.
MR. TUOMALA: No further questions.
CHAIRMAN GOLDNER: Thank you.
And we'll move to Commissioner Simpson.
COMMISSIONER SIMPSON: Thank you.

INTERROGATORIES BY COMMISSIONERS:

BY COMMISSIONER SIMPSON:

Q. So I'll start with a few questions from the Company.
When should we anticipate the Company's filing of an interim budget for WICA-eligible planned additions through the end of this year, December 31st, 2022?
A. (Szabo) We can provide that, you know, within days of requesting it. We can take it as a late-filed request as well if that's something that you're interested in.
Q. I'm really interested in just your approach. What's your strategy at this time?

A. (Szabo) So typically our WICA filings have been annual submissions. For 2022, I believe there's only one WICA project that is in the works for this year. So our intent was to actually do a filing in February of 2023, which would have the completed 2022 project and then a budget for 2023 future WICA investments.

Q. Okay. And can you explain to us in your own words how the WICA mechanism works and why it's so important to the Company?

A. (Szabo) Sure. So the WICA mechanism allows us to get recovery in between base rate proceedings for eligible investment. So it decreases some of the regulatory lag allowing for that recovery. It's a portion of our capital spend. So it's, you know, not all of the capital that we're implementing, it's just one component of it. But as Jayson had mentioned, it also allows for smaller, incremental rate increases. Historically we've seen those annual surcharges be around one percent, one to two percent, based on the size of the project. So we feel that it's, you know, beneficial both for the Company and for the customers to have gradual increases as opposed to waiting for base rate cases to incorporate that plan.

Q. And is it fair to say that your goal as outlined in the Settlement Agreement is to make the WICA adjustment a permanent aspect of your rates?

A. (Szabo) Yes, that is true.

Q. So in Section 5 of the Settlement, on Bates Page 8, it states that the WICA was approved as a pilot program but would now continue in effect on a permanent basis. So today, in your view, the WICA remains a pilot; correct?

A. (Szabo) That's correct.

Q. Continuing on, on the bottom of Page 9, top of Page 10, the Settlement refers to the Company filing an interim budget as mentioned before, and that the next WICA surcharge filing will be submitted to the Commission.

Will the interim budget be part of that next WICA surcharge, or will the settling parties anticipate two separate filings for these items?

A. (Szabo) Well, I was anticipating that it would be one filing. It would be a filing with the completed 2022 project and then a budget for future investments.

Q. And can you provide us an overview of those future investments at this time?

A. (Szabo) I cannot. I know that there's either one or two streets proposed. I do not have those details with me today.

Q. Okay. Section 7 of the Settlement addresses well monitoring obligations. Does well monitoring fall within the Department of Environmental Services' oversight authority?

A. (Szabo) I believe so. This was well monitoring that was put in place many years ago to look at obviously people who are not Aquarion customers to make sure that our pumping and use of water was not negatively impacting their wells. And throughout the years, a number of those customers are no longer on wells. I don't know the exact number, but it's a very small number that are still under this well monitoring program. And we haven't had any negative results

during the course of that monitoring.
Q. Can you speak to the nature and the requirements within that well monitoring program as prescribed by the Department of Environmental Services? What's involved?
A. (Szabo) I cannot. I'm sorry.
Q. Okay. And can you speak to the Department of Environmental Services' audit or review of test results?
A. (Szabo) I'm sorry, no. That's covered by our director of operations, who's not here today.
Q. Okay. So then let's talk about the loan that the Company's applied for under the State's PFAS Remediation Loan Fund and its impact on the Company's revenue requirement.
Have you calculated liabilities associated with PFAS remediation and what those liabilities might be?
A. (Szabo) We have not calculated quantified financial liabilities as a result of PFAS, no.
Q. And can you provide an overview of the process in order to seek Governor and Council approval of the PFAS Remediation Loan Fund?

A. (Szabo) Sure. So this is with regards to the PFAS project affecting our Well 6, which the total cost of that project is approximately 1.7 million. And we had applied for two components of funding: One was initially a grant that was approved for 428,000, and the remainder was to be provided through the PFAS Remediation Loan Fund. After that application, we were informed that the DES had decided to provide that as a grant as well, and there's another step of approval that has to go to the Governor and Council to get the grant fully approved. So we are awaiting that decision. It has -- last time -- the last update I received, which was just this week, it was looking to be put on the agenda for the end of June; and if not, it would be on the July agenda.

Q. So the Company has been in touch with the Council with respect to this issue?

A. (Szabo) We have been in touch with DES going through that process, and then they bring it forward to the Council.

Q. Okay. In Section 5.1 of the Settlement, it states, "There shall be an increase in the costs related to the emergency reactive replacement of services, valves and hydrants from $50,000 to $75,000." Can you explain how you based -- or what you based that cost increase on, how it was calculated?

A.   (Szabo) It was a negotiated value. That's an amount that is looked at in the WICA filing. So any costs incurred up to that value are not requested for recovery in the WICA program. The $50,000 had been set at the onset when WICA was first established, so, you know, many years have transpired since then. And through Settlement, it was just agreed to the increase to 75,000.

Q.   Okay. Thank you.

I'd like to ask you a little bit about depreciation and the corresponding step adjustment the Company filed in Docket DW 22-037 as it related to this case. Are you familiar with that?

A.   (Szabo) Yes. I just want to get to the file first.

(Pause)

A. (Szabo) Okay.
Q. So can you confirm that the Company adjusted these depreciations and expenses from what was presented in the Settlement Agreement to reflect a correction with respect to meter replacements?
A. (Szabo) Yes.
Q. And it appears that the Company's using PUC account codes to track what qualifies for growth and non-growth plant additions. So can you discuss what process the Company uses to determine such classifications for these expenses?
A. (Szabo) I'm sorry. Can you repeat the question?
Q. So it appears that you're using PUC account codes to track what qualifies as growth and non-growth.
A. Okay. In terms of the main replacements?
Q. Yes. So can you just describe how you determine the classification of those expenses with respect to those codes?
A. (Szabo) I actually am not involved with the determination of that. I mean, it starts in

our engineering and planning group. So any of the main replacement projects, when they're set up in our system, there's, you know, a process within that group where the nature of the costs are defined, and the project is set up, you know, to point to the corresponding PUC code.

Q. Okay.

CHAIRMAN GOLDNER: Commissioner Simpson, a question. I don't -- are you okay with proceeding? It seems like we have a panel of witnesses that can't necessarily address the questions that you have. Would you like to proceed with the hearing, or would you suggest that we reschedule the hearing?

COMMISSIONER SIMPSON: I have a few more questions I'd like to go through, and maybe when we take a break we can see where we're at then.

CHAIRMAN GOLDNER: Very good. Please proceed.

BY COMMISSIONER SIMPSON:

Q. So with respect to the calculation of accumulated depreciation, are you able to walk through how that's performed for us?

A. (Szabo) Sure.

Q. So I'm looking at the -- comparing what was in the Settlement Agreement, Schedule 5, and with what the Company filed in 22-037. And it appears that the 2020 through 2021 accumulated depreciation expenses include the 2020 expenses, but is simply a sum of 2020 and 2021. So can you explain whether these 2020 depreciation expenses are accounted for in 2021?

A. (Szabo) Yes. So in the step adjustment, what we were quantifying there is both the 2020 additions and the 2021 additions. And so what we were doing was rolling forward the balance as of December to bring it to December of 2021. So for the 2020 additions, we had a year and a half worth of depreciation in that calculation; for the 2021 additions, we just had the half-year depreciation.

Q. And why are you not accounting for total rate base and accumulated depreciation on the rate

base as well? You're just looking at what's in the step adjustment.
A. (Szabo) That is correct. That is the -- under the terms of the Settlement, we had agreed that we would be requesting recovery in the step for going forward of new plant addition only.
Q. So can you speak to how much the Company collected for depreciation on existing assets between 2020 and 2021?
A. (Szabo) I don't have that in front of me right now, but I can certainly get that.
Q. Okay. I don't know if maybe Mr. Laflamme or Ms. Gage might be able to jump in and speak to depreciation and how it was calculated.
A. (Laflamme) As we just received that filing last week I think, we haven't completed our analysis on that yet.
Q. Okay.
A. (Gage) Yeah, the OCA has the same response.
Q. Okay. Can you describe the methodology as applied in the Settlement whole life depreciation?
A. (Szabo) The whole life depreciation is

consistent with the methodology that the Company currently had employed. It was -- we had a depreciation expert who prepared that testimony and those calculations. So I'm not certain, depending on what your -- if you have specific questions, if I'll be able to answer that or not.

Q. Perhaps you could describe how that calculation under a whole life methodology is -- how it's supposed to work.

A. (Szabo) I'm sorry. I can't.

Q. Okay. And Ms. Gage, in the Settlement it was noted that the OCA reserves the right to leverage a different methodology in the future; is that correct?

A. (Gage) That's correct.

Q. Can you elaborate on that?

A. (Gage) Yeah, I can elaborate on that, but only at a high level at this point in time.

Q. Yeah, not specific to any negotiated terms in the Settlement, just the OCA's perspective on varying approaches to depreciation.

A. (Gage) So at this point in time, the OCA is expending resources toward researching why

New Hampshire has chosen to revert to whole life depreciation methods, where most other jurisdictions in the United States, and in fact around the globe, use remaining life methods of depreciation. And so where this is such a striking, unusual mark for New Hampshire to be doing this, it's curious as to why New Hampshire would strike out and if that strike out away from the mainstream is innovative or more regressive. And that's currently something that the OCA is investigating. Does that help?

Q. That is helpful. Thank you.

So then just some general questions for both the Department and OCA. Just looking for confirmation on these questions.

Both agencies have reviewed the projected sales and demand of the Company's cost of service study; is that correct?

A. (Laflamme) Yes.

A. (Gage) Yes.

Q. And you agree that -- or you agree with the Company's position, that the proposed revenue requirement will produce rates that are necessary to maintain safe and adequate service?

A. (Laflamme) Yes.

A. (Gage) Yes.

Q. Okay. Thank you.

COMMISSIONER SIMPSON: I'd like, irrespective of the witnesses, I'd like to ask the municipalities here whether they have anything they'd like to offer at this time. Is that appropriate?

CHAIRMAN GOLDNER: Please proceed.

COMMISSIONER SIMPSON: So for the Towns of North Hampton and Hampton, is there anything at this time that you'd like to add with respect to the Settlement Agreement?

MR. RICHARDSON: Thank you, Commissioners. If I may, I was debating whether to say no questions or to ask questions about the WICA program. I may be able, because we were involved in that, to ask a couple questions to the panel that might respond to some of the Commissioners' concerns, if appropriate at this time. I think that would be helpful.

COMMISSIONER SIMPSON: Any objections from any of the parties in the room to that approach?

MR. TUOMALA: I don't have an objection.

MS. DESMET: The OCA does not as well.

MR. VENORA: The Company does not either.

COMMISSIONER SIMPSON: Okay. Thank you.

Attorney Richardson, please.

CROSS-EXAMINATION

BY MR. RICHARDSON:

Q. I'll address these questions to the whole panel, and I'll let you decide who the best responding person is, or if you want to elaborate on it. And I apologize for the noise behind me.

COMMISSIONER SIMPSON: It's certainly not your fault.

BY MR. RICHARDSON:

Q. To help us understand the Settlement Agreement and how that relates to the WICA program, I want to start with the concept that the current WICA program is embodied in the Company's tariff. And I believe it's a Third Revised Page 18; is that correct?

A. (Szabo) Yes.

Q. And so the WICA program is becoming permanent, which will result in, following the approval of the Settlement Agreement, the Company will update the tariff to reflect the changes in the Settlement Agreement. Is that the process that will occur?

A. (Szabo) Yes.

Q. Okay. And I understand on the Third Revised Page 18 there are a couple of safeguards in Roman Paragraph III, and one of them is a 7.5 percent cap on WICA adjustments that I believe will continue to be in place. Is that the parties' understanding?

A. (Szabo) Yes.

Q. And I'll ask for the OCA and the Department to chime in on that as well if they don't mind, please.

A. (Laflamme) Yes.

A. (Gage) Yes.

Q. I understand there's a new provision where the Company may defer, under the Settlement Agreement in the WICA filing, if it is earning at 50 basis points or higher in the prior year. And I was wondering if you could explain to the Commissioners how that will operate.
A. (Szabo) Yes. So what I envisioned is as part of the annual WICA filing, we will include in that application testimony and support of a actual return for the prior calendar year that will be measured against the authorized return. If it exceeds 50 basis points, we will not request -- will be ineligible for requesting recovery of projects at that time until the subsequent year when we'll perform the same process. If it's determined at that point that we have not exceeded that threshold, we'll submit a WICA filing that would include any projects that have yet to be recovered at that point.
Q. Thank you.
And this question may be best for the Department and OCA because of your roles.

But there was a question earlier about whether the Company used its chart of accounts to track whether assets were revenue-producing or non-revenue-producing, I believe. Do you recall those questions?

A. (Laflamme) I recall the question, yes.

Q. When the Company makes a WICA filing, is it correct that that's an issue that the Department would then consider in its review, to look at whether main replacements would serve new customers and therefore revenue-producing, or whether it was a replacement main that was not producing new revenues?

A. (Laflamme) It would be the Department's -- yeah, that would be a Department concern. The WICA program is meant to encompass main replacements and not new mains.

Q. And it's my understanding that in maybe not -- I don't know whether it's the majority of cases, but in a great number of cases, if there are new mains serving new customers, those would typically be looked at as Contributions in Aid of Construction; so they wouldn't appear in a WICA surcharge because they'd be paid for by the customers.

Does the Company or the Department or OCA have any comment on that concept?

A. (Szabo) I would agree with that as well. And to that point, if there are contributing mains, they wouldn't even be submitted as part of a WICA filing. So we would only look to include mains that are eligible for the program, which would indeed be replacements.

Q. Okay. Thank you.

MR. RICHARDSON: That's all the questions that I have.

COMMISSIONER SIMPSON: Thank you.

Anything from the Town of Hampton? No?

MS. LOWRY: No, thank you.

BY COMMISSIONER SIMPSON:

Q. Okay. So as a general matter, WICA is intended to help the Company true-up expenses and avoid some regulatory lag between rate cases; is that correct?

A. (Szabo) I just want to be cautious. When we say "expenses," it's just the capital investments. We're not looking for inclusion of expenses other than those associated with the capital; so depreciation expense would be in there.

One of the changes we're looking for in the program with the introduction of a property tax reconciliation mechanism, the WICA program would no longer include those local property taxes in that filing; it would just be restricted to state taxes.

Q. Pursuant to recent statutory changes from the New Hampshire Legislature; correct?

A. (Szabo) That's correct.

Q. I didn't see a stayout provision in the Settlement Agreement. Did I miss that?

A. (Szabo) No, you did not.

Q. So can you speak to the Company's future intent? I mean, does the Company intend to file a rate case within the next year or two?

A. (Szabo) I do not believe that is our intent. There's other activity that has gone on with our recent acquisition of the Abenaki Water System in New Hampshire, where there is, you know, a focus on what our next steps are with that system and at what point we would look to potentially consolidate that with our Aquarion Water Company of New Hampshire. Of course, there's a lot of analysis, you know, in terms of rate impact for all parties that would need to be considered. And that will certainly influence the timing of our next rate case.

COMMISSIONER SIMPSON: Okay. I don't think I have any more questions at this time for the witnesses. Thank you.

CHAIRMAN GOLDNER: Thank you. Just a few questions.

BY CHAIRMAN GOLDNER:

Q. I'll begin with OCA and Ms. Gage.

Exhibit 19, Bates 25, Ms. Gage, you show seven companies in your comparisons on Bates 25, and you share your criteria. Were there only seven companies in the United States that met your criteria, or is that a sub-selection of a larger group?

A. (Gage) So while the proxy group did meet all of the requirements that I listed, it's significant to note two things about this proxy group, in that it is -- it matches with Value Line's proxy group for water companies, or for the water utility industry, and it matches with the Company's proxy group.

[Court Reporter interrupts.]

A. (Gage) So it made for easy comparison, and it did pass all of the hurdles. So it made sense to select that group. Does that help with your question?

Q. It does, it does.

CHAIRMAN GOLDNER: And I'd just like to ask the hearing room. It seems like we're making 21 South Fruit Street super clean today. Do people need a break? Is that bothersome? Or would you like to continue?

WITNESS GAGE: I will say that I'm having a lot of trouble trying to focus on these questions while that's going on. So we might want to stop the weed whacking for a while.

CHAIRMAN GOLDNER: Yeah, let's give it a second and see if that works. Maybe we stopped it somehow. We'll give it a minute here. We'll just pause for a moment and wait to see if it stops.

(Pause in proceedings)

CHAIRMAN GOLDNER: If it comes back on, we'll maybe take a break so everyone can concentrate. I was finding it bothersome as well.

BY CHAIRMAN GOLDNER:

Q. Okay. So I think I understand your selection of the seven companies. And you were satisfied that that provided a statistically valid sample size and that your results were sort of statistically meaningful?

A. (Gage) With my background in statistics, I always wish for a larger sample set. However, this is the best sample set available to someone analyzing the water utility industry at this scale, I would say.

Q. And then I noticed -- I think I noticed a number of the companies were from outside New England. There might have been one or two from New England. But did that dispersion of companies bother you at all in your analysis?

A. (Gage) No, because Aquarion -- you know, we're looking to the marketplace, right, to create a mirror for Aquarion's return and weighted average cost of capital.

Q. Okay. Very good. On Bates 12 of your testimony, you highlighted that the Company has three issuances, with interest rates of 7.71, 6.47, and 4.70 percent, and that these rates were not reflective of a company with Aquarion's credit rating. Can you maybe speak to how this was addressed in the Settlement? I'm just noting it was settled at 5.68 percent for long-term debt. And you highlighted in your testimony, Ms. Gage, that you had some concerns and I think recommended that the Company refinance their long-term debts. So I'm just looking for some color on where the OCA is at today on that debt analysis.

A. (Gage) I think there was one particular loan, and we did address this issue in our negotiations in the Settlement. And I'm going to -- maybe Debra can speak to specifically their plans with regard to that one loan, which is the one that was most

concerning.
A. (Szabo) So within the Settlement there were actually two pieces of debt that are coming up for maturity. The total long-term debt is $13.9 million, and there's a $5 million tranche that's coming to maturity in July of 2022, and there's another piece coming to maturity in November of 2023, $3 million. The corresponding rates that are in place right now for both of those, the one maturing in 2023 was commenced in 1993 at a rate of 7.71 percent, and the $5 million, which commenced in 2012, was at a rate of 4.45 percent. The pricing that we had talked about during Settlement in the April 2022 time frame for 10-year financing for the Company was being priced at around 4.8 to 4.9 percent.
Q. Okay. Yeah, sadly it didn't come due a year earlier. But that's not your doing.
So it looks like, if I can call it the "worst problem," the 7.71 percent will be refinanced in July, $5 million. And you're expecting, I think you said, a rate of

about -- did I hear you say that it was about 4.8 percent?
A. (Szabo) Just to correct, the 7.71 percent rate pertains to the November 2023 maturity of $3 million.
Q. Okay.
A. (Szabo) The July 2022 maturity of $5 million is currently at a rate of 4.45, and the pricing we're seeing is in between 4.8 and 4.9.
Q. So it actually gets worse in the short term.
A. (Szabo) A little bit, yes.
Q. Okay. I'm just trying to sort through the math. The Settlement of 5.68, can you share how -- is that the mathematical average of the expected refinancing and existing debt, or is that some other settled number? I guess is it algebraic or not algebraic?
A. (Szabo) You can compute that as the weighted average of those three tranches. There's an assumption that there's costs, you know, closing costs in addition to the financing rate of 4.89, an additional 20 basis points.
Q. Okay. I understand. Okay. Very good.

And Ms. Gage, I wanted to follow up a little bit on your concerns with short-term debt. You've clearly given this a lot of thought.

Normally I would have expected OCA to encourage short-term debt because the rate is, of course, lower than the rest of the debt; yet, the OCA went the other direction. And I do understand, I think, your point about not knowing what the -- the Commission doesn't control or regulate that rate. But it's still a known rate. At least we can look at the Company's books and understand what that rate is, what is known and measurable, even if it's not regulated. So I was hoping you could just add some color into your thought process for removing short-term debt from the weighted average cost of capital calculation.

A. (Gage) A couple of things come to mind about that. I would say that that short-term debt rate is known in the short term. And also some of what my research at the OCA is showing is that ratemaking treatment is as important as removing a small amount from the Company's cost of capital that shifts the balance toward the Company's increased weighted average cost of capital. But it's a small amount in exchange for ratemaking treatment that's more clear and concise and able to be regulated directly by the Commission.

Q. Very good. Thank you. That's helpful.

And then my final question in your testimony was -- it's actually in the Settlement -- and it goes to Commissioner Simpson's question on whole life depreciation, et cetera, would you -- I just want to follow up on that question.

Would you say that the OCA has a preferred method of depreciation for New Hampshire, independent of the Settlement here?

A. (Gage) Completely independent of this case, at this point in time, if the OCA had to strike out and choose, we would choose remaining life.

Q. Okay. Thank you.

Okay. So I'll turn to the Settlement itself now. And my first question was on the Settlement at Page 5. There's discussion of amortization of the Eversource acquisition costs of Aquarion, and there's a discussion of numbers being amortized over 20 years. What is the dollar amount that's being amortized over 20 years?

A. (Szabo) It's a total of 5.7 million and change. I don't have the number in front of me right now.

Q. Okay. And what composes those costs? Are those sort of costs of management expenses, administrative expenses? What is that 5.7 composed of?

A. (Szabo) They're mostly external fees. And I'm going to call up a schedule right now that I'll be able to give you further breakdown on that.

Q. Okay. Yeah, take your time.

(Pause)

A. (Szabo) So the total is $5,706,744. And the components of that, the first one is investment banking fees of approximately

3 million; external legal services of approximately 1.5 million; other outside consulting fees noted here, PricewaterhouseCoopers, Deloitte and other consulting of approximately 970,000. There's Federal Trade Commission allocation fee of 125,000; and then a handful of other fees, some of them related to printing. I don't have a further breakdown on the smaller group.

Q. You covered most of it. Can you share your, the Company's logic on why that is a ratepayer expense and not a shareholder expense?

A. (Szabo) I don't know that we're looking at it in that regard. But what we were looking to seek recovery of is really if there's increment -- if a transaction resulted in incremental savings to allow the Company to recover some of those expenses. So in our mind, it really is neutral to the customer.

If we quantify the 5.7 million and amortize that over 20 years, that amortization expense is still below what we are seeing in annual savings as a result of the transaction. So there's a net benefit to the customer as a result of the transaction, but still allowing the Company to recoup some of those expenses.

Q. Okay. Thank you. That's helpful.

Okay. So let's move to Bates Page 5, I think. Well, it starts on Page 5, but it's really Page 6 of the Settlement. And there's discussion on that cost of debt with a 5.68 cap. And "cap" is an unusual term for a Settlement agreement because it's either -- in my mind, it's either fixed or it's not fixed for the term of the Settlement.

Is there intention that that 5.68 cost of debt floats or somehow changes? I don't understand the use of the word "cap."

Ms. Gage, you can take that if you'd like.

A. (Gage) It's my understanding that it does not float at all. It's just the word "cap" was selected as the meaning for fixed.

Would you concur?

A. (Szabo) Yes. And I do believe it was also intended to take into the fact that we haven't performed that refinance yet. So if we were to refinance, and the costs -- you know, if it wound up being greater than that, that the Company is not able to come back and ask for that.

Q. Okay. In this rate case?

A. (Szabo) Correct.

Q. Okay. Very good.

One bafflement that I had when reviewing the Settlement was that, you know, in the current debt environment, even today, we're at historically lower rates of debt. And certainly during the course of this rate case it was, you know, even lower. I think a year or two ago it was, you know, a couple points lower. And I think the Commission has signaled in other rate cases that sort of a 50/50 split is normal. And so I'm struggling with the percentage of the cost of equity at 54 percent, cost of debt at only 46. I'm taking into account Ms. Gage's conversation before on short-term debt. But I'm struggling to understand the reasonableness

of this debt-to-equity ratio. If anyone
would care to comment on that.
A. (Gage) And you just were using some terms
there, 54 --
Q. Yeah. I'm just looking at the weighted
average cost of capital on Page 6, Bates
Page 6 of the Settlement. It's 54.42 percent
equity and 46 -- 45.57 percent long-term
debt, with a little bit of preferred equity
in there to arrive at the weighted average
cost of capital of 7.54. And I think we
normally see more like 50/50 splits, and
certainly we've been moving in that
direction.
A. (Szabo) I will just add that it is based on
the test-year capital. So stripping out the
short-term debt and the remaining long term,
it was just a mathematical determination. It
wasn't a settled amount. It was based on a
test year.
Q. And I'm not sure, and maybe Ms. Gage could
comment on other states.
In New Hampshire, the weighed average
cost of capital computation is not

necessarily tied to the actual debt. So it can float. It can be different than the actual debt. These are just sort of processes for determining the weighted average cost of capital. So I think a good place to start is the actual cost of debt. But I'm sort of, you know, still baffled by the rate of percentages. Maybe someone can just give some color?

A.   (Gage) Yeah, so it would seem that you're looking toward my background with this. And so I would say that to me this doesn't feel very imbalanced. Certainly not enough to ask the Company to settle on, for example, a hypothetical capital structure where we impute a 50/50, for example. We didn't see that imbalance in this instance. I have had cases in the past in other jurisdictions litigated with regard to imputing a hypothetical capital structure. But the preferred method is to use the actual numbers that reflect the actual ratios of equity to debt and so on.

Q.   So if the OCA is -- has in mind a future rate case and is thinking towards the next rate case, does the OCA have any thoughts on the debt-to-equity ratio that they would look for in future rate cases?

A. (Gage) Do you mean a specific number that would say a red flag and imbalance?

Q. Well, when you're looking at other monopolies, as you did in some of your competitive analysis, and you look at what other monopolies are doing across the country, I think that the 50/50 split is more typical. So if the idea was that for Aquarion's next rate case you wanted to see them at a 50/50 split, you would start to move in that direction or signal that direction now.

A. (Gage) So I do know that other jurisdictions do move toward or migrate toward, again, hypothetical capital structures. But my experience is very much seated as close to actual capital structure as possible. And in the past I've seen that that works to the ratepayers' benefit more often than not. So my leanings are toward the actual capital structure of the company as much as possible, again with short-term debt removed, because using an AFUDC rate for short-term debt kind of mirrors the type of capital and allows the Commission to regulate the rate.

Q. Okay. Very good.

And the place I'm going to is it would only be fair to the Company if in the next rate case they were asked to go to a 50/50 ratio, given the cost and the time it takes and the effort to change the debt structure. It would only be fair to communicate that up front so that the Company had time to react and do things in an efficient way.

So it sounds like from the OCA's perspective, you're satisfied with the 46/54 split.

A. (Gage) I am, yes.

Q. In this case and future cases?

A. (Gage) And future cases. And yeah, I wouldn't... if I were in your seat, I wouldn't try to instruct a company to rearrange their capital structure to fit a hypothetical to actual matching scenario, for example. Is that what your question was asking?

Q. That's a fair answer. No, I appreciate it. I just wanted to get your perspective. That makes sense.

And Mr. Laflamme, do you have an opinion on this?

A. (Laflamme) Yes. I would have to say that the Department's position mirrors that of the Commission, that optimally the Department would want to see a debt/equity structure as close to 50/50 as possible. In this particular case, we did specifically examine the Company's capital structure. And I'll preface what I say by the fact that I'm not a cost of capital expert. But in discussions with individuals within the Department that are more knowledgeable than I am relative to capital structure, I would say that the Department is comfortable with the capital structure that is being presented in the Settlement Agreement.

A. (Gage) If I could add, I also concur with the preference toward 50/50. But in my view, again, the companies are savvy with regard to their capital structure. So, I mean, forcing a capital structure on a company could be disadvantageous to ratepayers. So I concur that one hopes for as close to 50/50 as possible, but to get overly instructive to companies regarding that disregards their expertise for lowering their own cost of capital.

Q. So I think if we were looking at Aquarion/Eversource, I think it's fair to say that it's one of the safer water utilities in New Hampshire from a risk perspective, right. So just to stay within the current hypothetical and not reach outside this rate case, if Eversource and Aquarion's debt rating were to drop significantly, it would become less safe, how would you -- how would the weighted average cost change in that scenario?

A. (Gage) My guess is it would increase.

Q. Correct. Now, would you -- now keeping in mind that they have long-term debt, right. So as we were talking about earlier, you have debt that's been on the books. It might be a 20, it might be a 30-year note. So the cost itself isn't going to change because that debt is locked, right, for some time period; I mean in our case a long time period here. So if the weighted average cost of capital changes, how would it change if the debt was fixed -- in other words, the tranches of debt were fixed? The tranches of debt aren't changing, right. They're already out in the market. It's whatever the rate is.

So if the risk of Aquarion goes -- if the risk increases, would you see any change in the cost of capital? I think you answered yes, and then I think now you're answering maybe not.

A. (Gage) Well, no, no, no. I believe then you would see the return on equity increase. Is that what you're asking?

Q. Yeah, I'm asking for your opinion of how the weighted average cost of capital would change if either Aquarion were to become more risky, or we were talking about a different water utility in New Hampshire that's not as safe as Aquarion and Eversource.

A. (Gage) In the first instance, where Aquarion becomes more risky, their actual return on equity would supposedly increase, and then they may come to the Commission and they may be allowed a higher return on equity. And that's "may be." So those do not have to exactly match.

And in the second instance, with a Company that's more risky than Aquarion, they might see a higher return on equity, actual return on equity, excuse me, and then the Commission may allow them a higher return on equity.

Q. Okay. Thank you.

Mr. Laflamme, any additional comments on that?

A. (Laflamme) I don't have anything additional.

Q. Okay. Very good. Okay.

A. (Gage) I actually have an additional comment on that.

Q. Sure.

A. (Gage) So in this instance we negotiated a 9.1 percent ROE. And the Company is up for reissuance or renegotiating some of its debt as we just discussed. So in the case of Aquarion, it could be harmful to not just the Company but also the ratepayers to push their return on equity down enough that the psychological optics of their return on equity damages their credit rating. So that could be damaging to residential ratepayers. So it's a careful balance to negotiate.

Q. Yes. And I'll just add one more comment/question before we move on, and that is -- and I'll make this a record request for the Company.

But to your point, Ms. Gage, if we hold the weighted average cost of capital constant at 7.54 percent, hold the long-term debt constant at 5.68, make long-term debt 50 and common equity 50, what would the return on equity be? I think it'll be about 9.4 percent. And the reason I'm going to this place is that would solve the problem and in effect improve the problem that you're suggesting, that return on equity would be very favorable to shareholders and be very interesting from, you know, both an equity and a debt perspective. So I'd like to make that a record request just to understand how it would change if that were to occur.

I would like to move on to the step adjustment as the next topic. So I was glad to see that the number of steps was reduced from three to one. So that's a very positive development. I did have some questions.

It includes 2020 and 2021 plant in service. And then it included known and measurable wages, salaries and benefits, which was a negative number. But I've never seen that included in a step adjustment before, and I was hoping someone could comment on known and measurable wages, salaries and benefits in the step.

A. (Szabo) I can start with that. So in the step we have an adjustment for $44,442. It's additive to the revenue requirement in the step. It was an item that came about through our Settlement discussions. These are related to known wage increases that occurred, effective in April of 2021. So we had -- the Company had initially included those in their initial application for a base rate proceeding. And it was agreed upon through Settlement to exclude those from the known and measurable changes and agreed to move them here to the step adjustment.

Q. Okay. And those reduce the revenue requirement or increase the revenue requirement?

A. (Szabo) They are increasing the revenue requirement in the step adjustment, and they decreased -- it was a negative adjustment to our initial rate application.

Q. Okay. So it's just a one-for-one. It's a timing thing.

A. (Szabo) Correct.

Q. Okay, okay. Very good.

I think we have a couple of choices with the step calculation. We've done this in other dockets. If the Commission doesn't have a super good understanding of the step calculation, we can defer a ruling on the step calculation itself until a future docket, or we can walk through the step here and at least try to get through that hurdle. Maybe just a couple of questions to make sure that we understand.

So in the 2020 and 2021 years, you're adding non-growth assets; correct? So that's Step No. 1.

A. (Szabo) Yes.

Q. Okay. And is there any contribution, positive or negative, from the test year? So are you bifurcating; so the test year is out of the calculation altogether and you're just looking at non-growth assets in 2020 and 2021?

A. (Szabo) That's correct.

Q. Okay. And then you calculate the depreciation on those non-growth assets. And that's -- forgetting about the wages and salaries piece, that's the amount that you're seeking recovery on.

A. (Szabo) Yes.

Q. Okay. All right. And then the final section, back to Section 5, Bates Page 8, the WICA. So as Commissioner Simpson was highlighting, it was approved as a pilot, looks like back in '08 and then again in 2012 and continuing on a permanent basis. So I'm questioning why the position of moving from a pilot to permanent was -- what's the logic or the benefit of that?

A. (Szabo) I'll speak from the Company's perspective.

Having the program designated as a pilot with each annual filing, it's unknown until you start the proceeding whether, you know, a decision could be made to just say, you know, we're not interested in your WICA filing or reviewing this. When we looked to move it to what we're calling "permanent," it doesn't remove any of the due diligence surrounding the application and the review of the request. It just notifies -- it allows the Company to know that the program, you know, the investments that we're making are going to be eligible for recovery, that it's not a question each time we go to do the filing, which is obviously always after the investment's already been put in place.

Q. Okay. Very good.

And what is the estimated dollar amount of the proposed WICA surcharge in February of 2023? Commissioner Simpson might have asked that question, and I might have missed it. Is there a dollar amount that you have already estimated?

A. (Szabo) So my estimate is based on capital projections that might be a little stale today. But just to give some reference, there was one main replacement project contemplated in our 2022 budget. That budget was prepared a couple months ago, so I can certainly get an update on that. But that was estimated to be, I think, approximately $300,000. So if we look at the weighted average cost of capital that's currently in the Settlement and gross that up, I would estimate about 10 percent on that 300,000, so about a $30,000 incremental revenue. The revenues that we're looking for in this Settlement are just north of $7.3 million. I'm not doing the math that well in my head right now, but it'll be less than one percent.

Q. It's small.
A. (Szabo) Yeah.
Q. And that really, you know, sort of -- and I know this knife has two edges. But there's a lot of conversation, a lot of discussion, a lot of effort put towards WICA, its 30K issue. You know, why not just improve this -- include it in the step or do it in some other, more simple way than having this WICA issue hanging out there?
A. (Szabo) I think we had not considered putting it in the step just because there are other safeguards around the WICA program really to address some of the concerns that, you know, other parties have raised with the program. Keeping it within the WICA program then has it assessed cumulatively against the 7.5 percent cap. So that was some of the reasons why we decided to keep it separate.
Q. Yeah. And it just seems like it would be easier, if you're making a capital investment, whether you call it a step or you call it WICA, you mentioned safeguards, and maybe I don't fully appreciate what those

safeguards are, but it just seems like it's all capital investment. It's capital investment that the Company needs to make. It's capital investment that all parties agreed to. So it sort of seems like all this could be captured in a simpler way than it is. So I'd just like to give you the opportunity to comment on that.

A. (Szabo) I would say that the Company is not opposed to that approach. I don't really have anything more to add other than that. The format that we tried to do in terms of the presentation of this step, we tried to model it off of the WICA filings, such that, you know, it would be -- lend itself to an easier review for parties. But, you know, if there's a willingness to combine the two, we wouldn't object to that.

Q. Okay. Mr. Laflamme, Ms. Gage, do you have any comments on that?

A. (Laflamme) I would say that we're in favor of the WICA program and that it sets parameters relative to the annual increases because we're sensitive to single-issue ratemaking.

We believe that a company's rate should be tied to an historical test year. I think the problem with instituting several step adjustments is that it really clouds the historical test year scenario that this Commission has historically set general rates under. And so we're just being careful. And we believe that the WICA program as currently -- as it's currently operating, as proposed in the Settlement Agreement, insures the sanctity of an historical test-year ratemaking and avoids the issue of single-issue ratemaking.

Q. And I'm just trying to understand a little bit better. You like the WICA because it's sort of this annual adjustment that keeps things trued up. It's easy to get your hands around. It's sort of methodical and something that's easy to monitor. Is that a fair -- am I capturing that right?

A. (Laflamme) Yes. You know, the advantages are that it incentivizes the Company to make necessary main replacements in order to maintain reliability, system reliability.

And then for the customers, rather than being hit with a large rate increase, you know, every three to four years, it helps to mitigate rate shock, from that perspective.
Q. And maybe walk through the DOE's position on -- I understand your position on WICA, but then I'm having trouble understanding why that's different than a step. So why would you then not support a step every year for the same reason?
A. (Laflamme) Step adjustment, I mean, it's really -- it would -- this amounts to an annual step adjustment --
Q. Right.
A. (Laflamme) -- really. But we're comfortable with the parameters that have been set with regards to the limitation on the amount of the annual increase, the amount of the cumulative increase, the fact that the WICA program as it's created allows input not only by the DOE and the OCA, but also invites input from the affected communities as well. So that's -- I think realistically we are in favor of the WICA program because of the

safeguards that have been implemented so that annual rate increases don't get too out of control or too separated from the last historical test year.

Q. And I just want to make sure I understand the word "safeguard." When you say "safeguard," can you just please define that term? I just want to make sure I'm understanding what you're saying. What is the "safeguard"?

A. (Laflamme) The percentage, I think -- subject to check, but I believe that the annual WICA charge can't exceed 5 percent per year, and from a cumulative point of view, it can't exceed 7-1/2 percent.

Q. Okay. That's what you mean by "safeguard." I just wanted to make sure I understood --

A. (Laflamme) And the fact that it's limited to main replacements and other replacements above a floor amount.

Q. And then that 5 percent or 7-1/2 percent cap, what's the denominator in that? Five or seven and a half percent of what?

A. (Laflamme) The last approved revenue requirement.

Q. Okay. So the test-year revenue requirement?
A. (Laflamme) Yes.
Q. Okay. Thank you. That's all.
A. (Szabo) I'll just add one clarifier. It's the test-year revenue requirement, but it excludes miscellaneous fees.
Q. Okay, okay. That gives us roughly the right number. It just seems like an awful lot of work to go through for $30,000. But that's why I'm asking.

Ms. Gage, did you have anything you wanted to add?
A. (Gage) I would concur with the DOE's general statements about the WICA program. But I would also add that having this incentive for the Company to me seems particularly important because aging infrastructure is a pretty serious risk to the Company and to the ratepayer. And this program addresses both of those concerns, you know, on both sides; so incentivizing the Company to reduce some of that risk through investment as well as provide the ratepayer with the updated infrastructure that they paid for.

Q. So when you say "incentivize the Company," what you mean is they're adding capital in a process that everyone's comfortable with, obviously improving things as you suggested. But the reward that they get is a return on their capital at the weighted average cost of capital. That's the reward you're speaking of?

A. (Gage) Where in your question "they" are the Company? Yes.

Q. Yes.

A. (Gage) Yes.

Q. I just wanted to make sure I understand what the "reward" is. So the "reward" is a return on the capital that they're investing inside of a process that the OCA and the DOE and the Company is comfortable with.

A. (Gage) Right. And I would also add more certain return of that capital.

Q. Okay. Very good.

A. (Szabo) If I could add, too, in regards to the program. 2022, the investment that I mentioned, might not be reflective of what we see every year. There's a couple of factors that weigh into the timing of when we do a main replacement. And it could be something, you know, working on paving coordination with the towns if we know that certain streets that we've identified in our pipeline as being in need of replacement. Those come up on a paving coordination schedule. The timing could be influenced by that, as well as the Company's overall capital program for the year. So depending on if there's other costly investments, you know, for treatment upgrades or whatnot come into play. We want to make sure that we are always looking at trying to balance ultimate rate impact when we determine the timing of investments.

Q. Very good. And last question is do you have handy, and if not we can just make it a record request -- do you have handy the WICA, let's call it the "WICA surcharge" for the last five years or so? You mentioned it was 300K going to 30K -- 300K capital, 30K reward to the Company in the coming time period. But what has it been running the last four or five years?

A. (Szabo) I can certainly grab that. I'm not on the network right now. But I can get that today if we have a quick recess.

Q. Sure. And I think what we can do is we can go to redirect -- well, I'll tell you what.

CHAIRMAN GOLDNER: We probably want to take a break here, Commissioner Simpson, and then we can go to redirect and then closings?

Would that be okay with everyone?

MR. TUOMALA: Yes.

MR. VENORA: Yes.

CHAIRMAN GOLDNER: Okay. Thank you. So we'll go -- well, let's come back at five minutes until the hour, 15 minutes, and then we'll resume at that time. Off the record. Thank you.

(Brief recess was taken at 10:41, and the hearing resumed at 11:02 a.m.)

CHAIRMAN GOLDNER: So Commissioners just have a couple follow-up questions before we move to redirect. So we'll just wrap up here with a couple of lingering questions.

Commissioner Simpson.

COMMISSIONER SIMPSON: Thank you.

BY COMMISSIONER SIMPSON:

Q. Follow-up with respect to the intent, original intent of the WICA program. And I'm hoping that some folks might be able to confirm my understanding. And I think about parallels to the gas utilities and the cast iron bare steel replacement programs, where we have aging infrastructure that over time requires replacement and a means of the Company annually providing new infrastructure and having a mechanism to recover those costs. Is that generally or directionally what the WICA program was intended to provide back in 2008?

A. (Laflamme) I would say yes. And I would specifically draw your attention to Exhibit 16, which is the testimony of the DOE's engineering consultant, Mr. Douglas Brogan. And he evaluated the WICA program from an engineering point of view. And I would have to say that I think your assessment is correct, that one of the main goals was to encourage the replacement of substantially old infrastructure.

And in Mr. Brogan's testimony, he points to the fact that -- and this is on Page 3 of his testimony. He says that Aquarion's system dates back from about 1907, which, you know, he comments on as "old enough to have deteriorating mains." And above that he presents a couple of analyses, you know, relative to the success of the WICA program: What the percentage increase in the investment dollars were pre-WICA versus post-WICA and also feet of main replaced pre-WICA versus post-WICA. And the comparison, both in the amount of dollars spent and the number of feet replaced, is very striking. And so I would encourage the Commission to review Mr. Brogan's testimony in that regard.

Q. Thank you. And perhaps you or the Company could speak to the approach and planning for infrastructure replacement.

How does the Company plan? What's the forecast for completing main replacement at a date certain? What do you intend to do annually, mirroring issues like coordination of paving with municipalities? How does the Company's forecast and plan work for the WICA program?

A. (Szabo) So I'll talk in general because it's something that's handled by our director of engineering.

But annually, the Company will look at its pipeline of main and assess based on certain engineering criteria which ones they feel, you know, meet certain risk factors. They score it. That kind of, you know, engages them for really the next five years when they look at what they anticipate their WICA projects being. They then take that information and communicate and coordinate with the towns to see if that matches up with any of their planned paving within the town, so as to not pursue a main replacement and tear up the street and then find out next year the town, you know, had other work that it was planning for that. That really can be, you know, costly and disruptive to the people in that area.

So the WICA program really kind of facilitates that communication as part of the annual filing. It's not just a request for recovery of projects that were completed. It's also a discussion of what's in that pipeline and what the assessments are, in terms of why there's a need for it and those sorts of things.

Q.   And does the Company provide a forecast or a plan for infrastructure replacement?

A.   (Szabo) Yes.

Q.   And what's the date certain for completion of those main replacements?

A.   (Szabo) I think it is dependent upon, you know, when the projects start. I mean, there's typically a construction season. But I don't know that there's always a known end date for when they'll be completed. Certainly when we prepare the annual WICA filing, there's an expectation that it will be completed within the calendar year. And that's what the time frame in this Settlement has actually looked to amend the applicable periods. We'll be looking at calendar year, you know, placed into service that would be filed in the coming -- in the following quarter.

Q. Okay. And I'm thinking about the question of the permanence of the program, looking at the Cast Iron Bare Steel Replacement program for the gas utilities in New Hampshire or the G-Set program for gas utilities in the state of Massachusetts. Those programs are -- they have a date at which they end because the intent of the program has been completed; that aging infrastructure has all been replaced.

A. (Szabo) I see. So I don't know that that would apply here for water. The Company looks to achieve -- or its goal is a one percent replacement rate on main. And at that rate, I think, you know, it would take a hundred years for us to get there. And you just continue the cycle. So there has not been a discussion on an end date for the program.

Q. So then, presumably we're looking at infrastructure that's -- some infrastructure that has been replaced or that was put into service a hundred years ago that could go many, many more years; is that correct?

A. (Szabo) I don't want to say. I'm not certain what all the age of the underlying pipe is in the system.

Q. Okay. And then the conservation aspect, how does the Company track lost and unaccounted-for water with respect to investments that have been made pursuant to the WICA program?

A. (Szabo) I don't know that there is an actual tracking for each WICA project to assess lost water. I think it's more done on a system-wide basis. But I'm not certain of that answer.

COMMISSIONER SIMPSON: Okay. I don't know if you have any follow-up, Chairman.

BY CHAIRMAN GOLDNER:

Q. Yeah, just a couple follow-ups to Commission Simpson's questions.

I'm looking at Mr. Brogan's testimony, Bates Page 3, and he states, "The average annual replacement under the WICA program cuts that figure nearly in half" -- previously he said 400 years -- "to a little over 200 years." And then he comments on that's perhaps not good enough, but more desirable. So I'm just taking into account sort of all the information.

Did you say earlier that the Company targets one percent but maybe achieves something less than that?

A. (Szabo) Yes. We are not at a one percent rate. It's just that's kind of like the Gold Standard that we would look to be at. But we are below that.

Q. Okay. And is this something that's typical in the industry, you know, that there's sort of a one percent replacement rate? Is that something -- how did you arrive at that number? Why not two percent or three percent or half a percent?

A. (Szabo) I'll answer the first part of the question.

I know that's consistent with how we manage our other operations in Connecticut and Massachusetts with that same, you know, high-level goal in place. As to how it was derived, that's more a matter for the engineering department. I know that they rely on experts to help them come up with that.

Q. Okay. Any comment from Mr. Laflamme or Ms. Gage on that topic?

A. (Laflamme) Other than I would draw your attention to Footnote 2 on Page 3, where Mr. Brogan states in the footnote, "Both Aquarion and Pennichuck Water Works share an initial general high-level goal of 100 years in this regard, which neither has yet attained."

Q. Okay. Very good. So it's not quantified. But it does share that there was some understanding for larger water companies here in New Hampshire. Okay. Thank you, Mr. Laflamme.

Anything else on that topic?

A. (Gage) In this instance, the OCA, you know, relies on the qualified professional engineers, you know, hired by other parties in this case, particularly DOE, with regard to engineering.

With regard to the program, I will state that it is my view that it's in residential ratepayers' best interests that an incentivized, accelerated infrastructure replacement program stay in place so that those ratepayers are protected by the upgraded, modernized infrastructure versus potentially harmed by aging infrastructure. So inasmuch as the Company can be incentivized to accelerate this program, we would support that.

Q. Okay. Very good.

Yeah, I mean, it looks like pre-WICA it was 400 years. We've now moved into the territory of 200 years, and we aspire to 100 years. So that's an interesting way to look at it. And, yeah, the risk, it looks like there's certainly risk in the current approach. Okay. Very good.

And then I think there was a question for the Company on the spending for the -- or the "WICA recovery," if you want to call it that for the last five years I think you were

looking at on break?
A. (Szabo) Yes. So we have had six WICA filings since the inception, totaling $4.8 million of investment; so averaging about 800,000 a year, depending on the projects. So the actual range was from 600,000 to 1.05 million in terms of the annual capital investment. And that corresponded to a WICA surcharge ranging from 1.17 to 1.7.
I will add, with the exception of our last WICA filing, it incorporated through Settlement a return to ratepayers of the impact of the reduced federal tax rate. So we had accrued a return to ratepayers for that reduced rate, and that was incorporated into that WICA filing. So that WICA surcharge was actually less than one percent.
Q. Okay. And my last question. I'm now puzzled because I've heard -- I think I've heard the OCA, the DOE and the Company say that they wish that the WICA rate was higher. No?
Ms. Gage, care to comment on that? I thought I understood you to say that a faster replacement rate would be supported by the

OCA.

A. (Gage) Yes. I would say not for any incentive, but for a reasonable incentive, yes. Yeah. So acceleration is something that I would support, you know, incentivized to a reasonable rate.

Q. And when you say "incentivize," what I think of is they're getting a return on their capital, so they get their weighted average cost of capital returned.

COMMISSIONER SIMPSON: And depreciation.

BY CHAIRMAN GOLDNER:

Q. And depreciation. That's right. So they fully recover, plus they receive a return on their cost of capital.

So given that, I'm just wondering why in Settlement that rate wasn't increased, given that it seems like all three parties support a higher WICA rate -- a higher rate of replacement, let me put it that way.

Mr. Laflamme, do you have a thought?

A. (Laflamme) I would say that would have to be -- there would have to be consideration

given to the amount of the annual, the
resulting increase to customers. So, I mean,
that would involve another engineering
analysis, you know, of what is the ideal
balancing point between annual replacements
and the rate impact that it would have on
customers.

Q. Because this clearly affects every water
company in New Hampshire, and the Department
of Energy is probably in a unique position to
analyze that picture.

Is that something that the Department of
Energy, outside of this docket, would be
investigating? Or is that something that the
Department of Energy would recommend that the
Commission launch an IR docket? Or would you
have any recommendation on how to move
forward on the appropriate replacement rate?

A. (Laflamme) I would have no recommendation at
this point.

Q. Okay. Ms. Gage, would you have any thoughts
on how to get to the ideal number for the
replacement rate?

A. (Gage) Not at this time.

Q. Okay. Thank you. Does the Company have any recommendation?

A. (Szabo) I do not.

Q. Okay. I'm 0 for 3.

Very good. Thank you.

CHAIRMAN GOLDNER: Anything else, Commissioner Simpson, before we move to redirect?

COMMISSIONER SIMPSON: I guess the last point I would say is I really appreciate the OCA and the DOE and the work that you've done in this proceeding and your availability today for questions.

In the future, I'd encourage the Company to bring a broader witness panel for questioning with respect to operations and some of the other questions we've had today. So, a note for the future. Thank you.

CHAIRMAN GOLDNER: Thank you.

We can move to redirect.

MR. VENORA: Yes. Thank you.

REDIRECT EXAMINATION

BY MR. VENORA:

Q. Ms. Szabo, just picking up on the last -- on

Commissioner Goldner's last point on the one percent replacement rate, just to -- outside of an engineering perspective, is that all -- does the Company also consider rate impacts to customers when it figures out its WICA program, as well as its overall capital program?

A. (Szabo) Yes. The overall capital program is definitely considered on an annual basis when we're doing our budget and determining what the needs are, and also understanding that every dollar spent is going to have a rate impact.

Q. Earlier in the proceeding, do you recall the question from Commissioner Simpson about the fact that the Settlement Agreement does not include a stayout provision? Do you recall that question?

A. (Szabo) Yes.

Q. From your perspective, do certain elements of the Settlement Agreement enable the Company to stay out, avoid or delay the need for rate filings over time?

A. (Szabo) Yes. In this instance, certainly the step adjustment which allows for recovery of investment through 2021 will mitigate the need to come in sooner, as well as the WICA program and those ongoing recovery investments.

Q. And prior to this filing, the Company's last rate case was in 2012; is that right?

A. (Szabo) Yes.

Q. And would you say that having the WICA over that time period was a contributing factor in enabling the Company to defer its next rate case until this current docket?

A. (Szabo) Yes, it was a contributing factor.

Q. If I could draw your attention, Ms. Szabo, to your testimony in this docket, which was filed as hearing Exhibit No. 7, and specifically at Bates Page 28 to 29.

In that testimony, did you provide some background on the benefits of the WICA program and the reasons the Company's seeking to continue it on a -- you know, ending it as a pilot status and continuing it into the future?

A. (Szabo) Yes. In the testimony we had

identified that we felt the WICA program had met the primary goal when it was established as a pilot in both accelerating needed replacement and striking a balance between reducing rate shock to customers at that time.

Q. Okay. And in that testimony, is there a reference on Page Bates 29 of the Commission's perspective on the benefits of the WICA program?

A. (Szabo) Yes, there is. On Page 29, starting on Row 15, there's a quote stating from Order 25,019 that, "The WICA program appears to strike a reasonable balance between reducing rate shock to customers at the time of each rate case and providing an incentive to Aquarion to accelerate needed infrastructure replacement. For these reasons, we will approve Aquarion's WICA proposal, as modified by the Settlement Agreement, on a trial basis."

Q. Thank you. Ms. Szabo, do you recall earlier in the hearing today, Commissioner Simpson was looking for some information on the calculation methodology of the whole life depreciation technique?

A. (Szabo) Yes.

Q. And recognizing you're not a depreciation expert, is there information -- are you aware of information in the record that describes that calculation methodology?

A. (Szabo) Yes. In Exhibit 11, on Bates Page 7, starting on Row 7, our depreciation expert defines the whole life technique.

Q. Okay. And is it your understanding that that was the technique -- that that is the technique applied in the Company's -- the Settlement revenue requirement and the step adjustment calculation?

A. (Szabo) Yes, it is.

Q. Thank you.

And lastly, do you recall questions from Chairman Goldner on the concept of recovery of merger-related transaction costs?

A. (Szabo) Yes.

Q. Am I correct that merger-related transaction costs are only recovered to the extent the Company can demonstrate there's been net savings that exceed the level of transaction costs from the transaction?

A. (Szabo) That's correct.

Q. Okay. And am I also correct that in the Settlement Agreement there's a specific -- or that the Company will not recover any portion of the acquisition premium relating to the merger?

A. (Szabo) That's correct.

Q. Okay. Thank you.

MR. VENORA: That's all we have for redirect.

CHAIRMAN GOLDNER: Thank you.

We'll move to the Office of Consumer Advocate.

MS. DESMET: I do not have any redirect questions. Thank you.

CHAIRMAN GOLDNER: Okay.

Department of Energy.

MR. TUOMALA: Thank you, Mr. Chair. I just have a few brief questions for Mr. Laflamme. One specifically is relating to Commissioner Simpson's questions at the very beginning of Commissioner questioning regarding the interim filing.

REDIRECT EXAMINATION

BY MR. TUOMALA:

Q. Mr. Laflamme, do you have Exhibit 22, the Settlement Agreement, in front of you?

A. (Laflamme) Yes.

Q. Could you turn to Bates Page 9.

A. (Laflamme) Yes.

Q. Specifically I'm looking at Subsection E. And there's a discussion about the interim WICA filing. Could you just clarify for the record what you believe is the settling parties' intent for this interim filing and possibly put some -- add some color to why an interim filing is necessary from a historical perspective.

A. (Laflamme) Yes. Well, based upon the implementation of WICA programs not only by Aquarion, but also previously by Pennichuck Water Works, I guess from an historical perspective, the Department would envision that the interim filing would take place sometime in the fall and would result in an approval of the 2022 capital improvement budget. And that approval would take place prior to when the Company files for recovery of the 2022 capital improvements in the WICA program.

Q. So Mr. Laflamme, is it fair to say, in other terms, this is bridging the gap between what we hope is Commission approval of the Settlement Agreement and the WICA program and then jump-starting the process, where the budget needs to be approved before the Commission can look at approving the resulting surcharge the next year, and that basically in future years it will all be combined in one filing, where the budget is submitted, for the future years is submitted at the same time recovery for the previous year's investments is made.

A. (Laflamme) That is correct.

Q. And has this been ordered before, to your knowledge? Has the Commission ordered interim budget filings for mechanisms such as the WICA and the QCPAC?

A. (Laflamme) Yes. At the outset of all of those programs for the utilities that were involved, yes.

Q. I had one final question. It's just clarification of some statements that were made by the panel earlier. And this is in the regards to the percentage cap of the WICA and how specifically the percentage WICA is derived.

I believe it was stated that the WICA would be based off of the test-year resulting revenue requirement. Is that the -- is that actually what is going to happen in this instant docket? Or is it based upon the resulting revenue requirement of the Step 1 adjustment, if approved?

A. (Laflamme) It's the Department's -- the Department envisions that it would be the test -- the revenue requirement based on the test year, as well as the Step 1 adjustment and the revenue requirement resulting from that.

Q. Okay. So in other words then, the blanket statement would be that the WICA percentage relates to the most recently approved aggregate revenue requirement by the

Commission.

A. (Laflamme) That is correct.

MR. TUOMALA: I have nothing further. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you, Mr. Tuomala.

Okay. Very good. We can move to releasing the witnesses. I'd like to thank -- along with Commissioner Simpson's comments earlier, I'd like to thank the witnesses today for some excellent testimony. Thank you very much. You can --

COMMISSIONER SIMPSON: And collaboration in terms of Settlement. So thank you for all the work that the parties did.

CHAIRMAN GOLDNER: And you can -- wherever you're most comfortable, if you'd like to stay there or go out to the other area, either way as we wrap up is fine.

Okay. Very good. Without objection, we'll strike I.D on Exhibits 6 through 22 and admit them as full exhibits.

We have the one record request.

Mr. Venora, any questions on the record request?

MR. VENORA: Yes, Chairman Goldner. We just want to make sure we understand exactly what it is you're looking for. I could state what I think I heard, or you could restate what you really want.

CHAIRMAN GOLDNER: I can restate it. Let me pull up the table just so that I'm looking at the same figure. Okay.

So using the table that begins on Bates Page 6 for the long-term debt and long-term -- and common equity percentages, just change those to 50/50. Keep the long-term debt at 5.68 percent. Keep the weighted average cost of capital at 7.54. And then solve for the cost of common equity currently at 9.1 percent, and then it'll increase to, you know, 9.4 or something like that. So it's just solving for common equity given a 50/50 debt-to-equity ratio.

MR. VENORA: Okay.

CHAIRMAN GOLDNER: Thank you.

MR. VENORA: Thank you. That's

clear.

CHAIRMAN GOLDNER: Okay. Just a moment.

(Commissioners confer off the record.)

CHAIRMAN GOLDNER: Okay. I think we are ready to move to closing arguments.

Mr. Venora, if you can in your closing, which will of course be last, if you could maybe make some comment for the Commission on the relationship of what we can expect via the Abenaki acquisition. We're not -- the Commission's not totally clear. We know what we're approving today. We're not entirely clear on how all the Abenaki various dockets get resolved into an Aquarion resolution. So if you can maybe just comment on that, I'd appreciate it.

MR. VENORA: Okay. If you see me looking up a few things in the meantime, that's what I'm working on.

CHAIRMAN GOLDNER: Attorney Desmet offered to go slow, so we're covered.

So, okay. Very good. So let's perhaps start with Attorney Lowry and the

Town of Hampton.

MS. LOWRY: Thank you very much. Let me get that microphone closer to me.

I don't have very much to say. The Town of Hampton was very happy to be able to participate in the Settlement negotiations. We participated in many technical sessions, and we really feel like our input was heard in the Settlement Agreement that was put forth. We support the Settlement Agreement that was filed as Exhibit 22 a hundred percent, and we believe that it represents a just and fair rate and is a full compromise between all the parties. So we ask that the Commission adopt -- the Commissioners, excuse me, adopt the Settlement Agreement. Thank you.

CHAIRMAN GOLDNER: Thank you.

And we'll move to the Town of North Hampton and Attorney Richardson.

MR. RICHARDSON: Thank you, Mr. Chairman Commissioner.

We're here obviously to ask that you approve the Settlement Agreement as just and reasonable under RSA 378:7 and 374:2. We think it reflects a good compromise.

I'm going to shift so I'm not talking to the back of my co-counsel's head.

It was refreshing to hear the Commissioners' questions today. I think you grasped a lot of the important issues. The questions that you asked and the concerns that you expressed were the same ones that the Towns had in this process, related to whether it was rate of return on equity, return on debt, capital structure, the water infrastructure, conservation adjustment, WICA. And the other concerns that the Towns had coming in was the issue of over-earning, which had happened in the past, and that's what kind of brought us in here. We think this compromise addresses those concerns. I'm not suggesting the Towns got everything we wanted or hoped for. But looking at where we are under this agreement and to where we were and have been historically in past years, long before any of you were where you sit today, the Towns were concerned because we were seeing rates of return of 12 to 13 percent on equity, and at the same time we were seeing WICA adjustments. And that's a really big change that we're seeing now with the provision that's going to be added with the 50 basis point cap. What that means is, as you heard Ms. Szabo explain when she testified, is that if the Company is in a situation where expenses are down, water sales are up -- water companies, their revenues can really fluctuate significantly from year to year -- if they're above that rate of return set by this agreement of 7.54 percent by more than 50 basis points, they'll defer a WICA filing. And that's a real benefit that is important and not to be overlooked.

I think from our perspective, we also looked at the debt-to-equity structure, the proportions of equity and debt in the Company's capital structure. But there's also the rate of return. And I think I agree with what the witnesses testified to today. This was a reasonable balance. Obviously the

9.1 percent rate of return on equity really reflects what that capital structure was. And if we were to change that, we would probably end up wanting a different number, or Aquarion would, or the Towns would.

So I think those questions that were asked were really great and shows that you were looking at the same things that we were. But I encouraged us to accept the terms of the Settlement Agreement because I think taking all those factors into account, it reaches a good result.

So with that said, I think I'll go back to the main point, which is we think this is a good compromise on all of the issues. It's a just and reasonable rate that results. And we thank you for your attention and for allowing us to participate in this proceeding and hear our comments today. Thank you.

CHAIRMAN GOLDNER: Thank you.

We'll move to the Office of Consumer Advocate and Attorney Desmet.

MS. DESMET: Yes. Thank you.

In my mind, I thought I would be brief, despite apparently my promise made to go slow and to take up a significant amount of time. But I do -- the OCA echoes what has already been said. The Commission has heard from the panel of witnesses. And we urge the Commission to approve this Settlement Agreement. This was the result of many Settlement discussions, separate caucuses among parties internally and parties separately. So this really was given a lot of thought. And the OCA does feel this is a just and reasonable result, and the Settlement Agreement is in the public interest and it is a compromise that is advantageous to ratepayers, and urges the Commission to approve it.

CHAIRMAN GOLDNER: Thank you.

And we'll move to the New Hampshire Department of Energy and Attorney Tuomala.

MR. TUOMALA: Thank you, Mr. Chairman.

Most of my closing is a repeat of what everyone else has stated. But at least for the record, I'd like to state that, as the panel of witnesses have testified, the Department of Energy fully supports all aspects of the Settlement Agreement, including the permanent rate revenue requirement, the Step 1 adjustment, the permanency of the WICA program as described by all testimony today and explained in the Settlement Agreement. The DOE contends this Settlement Agreement is just and reasonable and in the public interest, as it is a disposition of all the issues in this rate proceeding and provides the Company with a clear path forward for its Step 1 adjustment, its adjustments to the WICA program, the property tax adjustment mechanism, rate case expenses, and temporary to permanent recoupment rate.

The DOE would also like to stress, as has been stated in testimony and in the closing arguments, this is not only a global Settlement of all the issues, but it's a global Settlement with all the parties, which is extremely rare in my experience and refreshing. But it was, as stressed, it was an arduous process to get there with all parties, and we thank them for their participation. We worked very hard in a number of technical sessions, e-mails, discussions. It was a collaborative effort, and we were able to get everybody to the table and at least partially satisfied, which, in my personal view, is a reflection of a decent Settlement, where not everyone is a hundred percent satisfied, but they're also not a hundred percent dissatisfied. There's something for everyone, including the Towns, which we note is something that the DOE strives for in every case, to get everyone to the table and hopefully agree. But it was actually achieved in this case. So we do thank everybody for their participation.

In conclusion, the DOE recommends approval of the Settlement Agreement as stated, as it provides just and reasonable rates to promote the Company viability in its provision of safe and adequate water service per RSA 374:1, and which results in a just and reasonable outcome for ratepayers per RSA 374:2 and RSA 378. Thank you.

CHAIRMAN GOLDNER: Thank you.

And finally we'll move to Aquarion and Attorney Venora.

MR. VENORA: Yes. Thank you, Chairman Goldner and Commissioner Simpson.

I want to thank you both for your consideration today of the Settlement Agreement. And in particular, echoing Attorney Tuomala's comments, I also want to thank the representatives of DOE, OCA, and the Towns of Hampton and North Hampton for their participation in today's hearing, and in particular for all the hard work that led to the comprehensive Settlement that's currently before the Commission. We really can't emphasize enough, you know, how everybody -- the investment of time and resources that all the parties made to that process. And we came out with a very -- with an outcome that I think is unique, you know, at least in recent history, in having all the parties onboard here.

Let me just start -- you asked specifically about Abenaki. So just a little bit on Abenaki, and I'll go through, you know, how that was structured.

So just as you may recall, Abenaki was an acquisition by Aquarion of New Hampshire's parent company. Aquarion Company acquired Abenaki's parent company, New England Service Company. And in the end result, Aquarion Company now has two operating subsidiaries in New Hampshire, which is Aquarion of New Hampshire and Abenaki Water Company. They continue to exist as separate companies with separate rate schedules.

In the settlement, in the Abenaki settlement that was approved by the Commission, we included several provisions on rates, the first of which is that Abenaki customers would remain on their current rate schedules as part of that rate case. As part of that merger settlement, Abenaki's pending rate case at the time was pulled, and that was part of the merger -- part of the balance of consideration in the settlement. So Abenaki customers remain on their current rate schedules unless and until a new base rate change is approved by the Commission in a future rate case.

Next, as I noted, the Commission -- the rate case was withdrawn, also without any future recovery of the rate case expense from that case.

There was a commitment of a stayout for Abenaki through at least April 30th, 2023. And there was also a commitment that the next rate case for Abenaki would be based on a test year with at least 12 months of actual cost data under Aquarion ownership. So those are kind of the stayout and the test-year requirement kind of working hand-in-hand in that regard. As I said, no recovery of the rate case expense.

And then the linkage to Aquarion New Hampshire. We also had a term in there that, at such time as Aquarion files the next rate case involving any of the Abenaki systems -- I'm sorry. I jumped a provision.

The next Abenaki rate case would include notice to all the intervenors in the merger docket, in the Abenaki rate case docket. I just want to get to the provision. There's a -- just bear with me one moment.

(Pause)

So thanks for bearing with me. In the next rate case filing for Aquarion New Hampshire, that means the next one after this case, the Company's commitment -- the Settlement Agreement approved by the Commission on Abenaki requires Aquarion New Hampshire to include an analysis regarding the potential future merger of the operating companies, Abenaki and Aquarion New Hampshire. So that's out there.

The Company is not required to propose a merger, but it's required to at least provide an analysis around that. And that was a significant topic in the Settlement because that would only -- the merger proposal would have to be beneficial to customers. And we'd have to make that demonstration to the satisfaction of all the parties, that that merger of the operating companies makes sense. So that's the linkage to Aquarion's next rate case.

CHAIRMAN GOLDNER: Thank you.

MR. VENORA: Sure. If there's any questions on that, I can take them or I can move on.

CHAIRMAN GOLDNER: Maybe just one quick follow-up. We're sort of perplexed by DW 17-165. Is Abenaki seeking anything, any recovery of anything in that docket, or is that finished post-acquisition? And if you don't know, we can follow up on it.

MR. VENORA: 17-165. I'm just trying to recall what --

CHAIRMAN GOLDNER: It's Rosebrook.

MR. VENORA: Rosebrook. I'm not directly involved in that docket right now, so I don't have a current status on that.

CHAIRMAN GOLDNER: Thank you. Thanks for checking. No worries. Please continue.

MR. VENORA: Okay. Sure.

So just looping back to sort of

some overall comments on the Settlement Agreement. Over time, the Commission has applied a consistent legal standard in considering rate case settlements. The Commission has stated, and consistent with the Administrative Procedures Act, that it encourages informal disposition of any case that may be made at any point prior to entry of a final decision or order. And this is also shown in the Commission's rules, that it shall approve a disposition of any contested case by stipulation, settlement, consent order or default if it determines that the result is just and reasonable and serves the public interest. And that's what we believe, you know, our panel has demonstrated today.

And in applying these standards, the Commission has stated that it encourages parties to attempt to reach a settlement of issues through negotiation and compromise, as it is an opportunity for creative problem-solving, which came through in spades on these negotiations. And it allows the parties to reach a result more in line with their expectations, and often more expedient than alternatives of litigation.

So I know this has been said by others, but one of the unique aspects here is that we really were able to resolve all issues in the case. That includes all the parties to the docket. So, you know, the certainty and the finality is certainly important here as well. And the Commission has recognized that when you have a compromise by diverse parties, such as staff and others, that that is an indicator of a reasonable settlement. And as Attorney Tuomala said, not everybody got everything they wanted. Everybody, you know, if they had their druthers, would have liked to see some additional things. But that's the nature of a compromise. And I think it reflects in a reasonable outcome.

There was discussion on the WICA. I'm just going to note that the Commission has, you know, looked at the WICA in the past, and most recently in its 2018 WICA order, which is Order 26,245. And the

Commission noted that the WICA is a Commission-created rate mechanism primarily intended to promote the necessary replacement or upgrade of aging, non-revenue-producing infrastructure, by reducing the lag time between the expenditure and recovery of the costs associated with installing the improvements. The relatively -- and this is a quote. "The relatively small, incremental rate increases associated with the WICA mechanism are intended to mitigate the rate shock that could occur if recovery of project costs were to await litigation of a full rate case." And that's consistent with what Ms. Szabo testified to, that part of the reason for the WICA is to -- and Mr. Laflamme noted the rate shock -- is to mitigate those cost pressures. It kind of works both ways. It mitigates the rate shock for the customer by phasing these into rates over time and gradually, and it also helps the Company to manage its capital programs in a way that enables the stayout for extended periods of time if all works as planned.

So just in closing, I just want to reiterate that on balance, the Settlement Agreement achieves a result that's just and reasonable and serves the public interest and results in rates that are just and reasonable. Aquarion appreciates the Commission's consideration and respectfully requests approval of the Settlement Agreement as filed.

CHAIRMAN GOLDNER: Thank you.

MR. VENORA: Thank you.

CHAIRMAN GOLDNER: I'll thank everyone today, and especially the witnesses. We'll take the matter under advisement and issue an order. We are adjourned.

(Hearing was concluded at 11:53 a.m.)

C E R T I F I C A T E

I, Susan J. Robidas, a Licensed Shorthand Court Reporter and Notary Public of the State of New Hampshire, do hereby certify that the foregoing is a true and accurate transcript of my stenographic notes of these proceedings taken at the place and on the date hereinbefore set forth, to the best of my skill and ability under the conditions present at the time.

I further certify that I am neither attorney or counsel for, nor related to or employed by any of the parties to the action; and further, that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in this action.

(ORIGINAL CERTIFICATION FILED WITH PUBLIC UTILITIES COMMISSION)

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Susan J. Robidas, LCR/RPR
Licensed Shorthand Court Reporter
Registered Professional Reporter
N.H. LCR No. 44 (RSA 310-A:173)

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