STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 28, 2021 - 12:53 p.m. DAY 1 AFTERNOON SESSION ONLY

[Remote Hearing conducted via Webex]

RE: DW 21-090
ABENAKI WATER COMPANY AND AQUARION COMPANY
Petition for Approval of the Acquisition of Abenaki Water Company by Aquarion Company
(Hearing)

PRESENT:
Chairwoman Dianne Martin, Presiding
Commissioner Daniel C. Goldner

Jody Carmody, Clerk
Corrine Lemay, PUC Hybrid Hearing Host

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Reptg. Bretton Woods Property Owners Association (BWPOA):
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P R O C E E D I N G S

CHAIRWOMAN MARTIN: Let's go on the record.

Ms. Burgess, are you prepared to ask some questions?

MS. BURGESS: Not at this time.

CHAIRWOMAN MARTIN: Okay. Ms. Bresson, do you have questions at this time?

MS. BRESSON: Hi, this is Cristy Bresson. I do.

CHAIRWOMAN MARTIN: Okay. Go right ahead.

MS. BRESSON: Thank you.

CROSS-EXAMINATION

BY MS. BRESSON:

Q. Okay. So my first question is directed at Mr. Morrissey. And I'd like to reference Exhibit 20, which I believe is a copy of the Bow 1-3 request that was made in early June of Abenaki and Aquarion. And specifically, Mr. Morrissey, I'd like to focus on Subpart A of that question, wherein the question reads, "Are there any plans post-2022 to continue to invest back into the system post-acquisition?

If so, what are they? If not, why [not]?"
And the response in Subpart A was, "Abenaki will continue to invest prudently in the water system after 2022 to ensure adequate water supply and address existing issues with the water distribution system."
Do you see that?
A. (Morrissey) I do, yeah.
Q. Okay. Great. So first question is it's my understanding from your earlier testimony, and correct me if I'm wrong, that -- I believe it was in your opening statement, Mr. Morrissey -- that you stated that Aquarion has annual capital plans. Is that correct?
A. (Morrissey) Yes, we do.
Q. And so does that mean annual capital improvement plans?
A. (Morrissey) Correct. So, essentially a capital budgeting process, yes.
Q. Okay. Do you know if Aquarion -- if Abenaki has capital improvement plans, budgeting capital improvements on an annual basis?
A. (Morrissey) I think that's probably a question for Mr. Vaughan.

Q. Mr. Vaughan, you can respond, please, if you'd like.

A. (Vaughan) Yes, we do have CapEx plans for all the systems. However, in the case of White Rock in Bow, there are immediate plans, and we want to address those plans. There's a couple of significant projects there. One is, of course, the arsenic treatment plant, and the other one is a distribution system. Those need really some attention, and we haven't gone beyond those particular projects relative to a CapEx plan.

Q. Right. So correct me if I'm wrong. Currently Abenaki's -- the way Abenaki operates currently is that there is not a long-term capital improvement plan, certainly not for Bow; correct?

A. (Vaughan) Well, the distribution plan, the distribution CapEx plan, would be fairly long-range because there's an extensive replacement requirement there, at least in our view. And just to make it affordable, we think that those improvements would be extended over a period of years.

Q. Okay. Thank you.
So Mr. Morrissey, in response to this question, it just states that Abenaki will continue to invest "prudently" -- and I know you've used that word a couple times throughout today's testimony -- in the water system after 2022. But it seems, I mean, unless I'm reading this incorrectly, it seems like the second part of that question wasn't responded to, which is, if so, what are they? So do you know what those prudent investments would be after 2022?
A. (Morrissey) Yeah. Well, I think we're getting into a learning curve, in terms of what the capital requirements are going to be not just for, you know, White Rock, but of the entire, the entire Abenaki system.
I will say, Attorney Bresson, you know, one of the exhibits that was put forth, I think it was Exhibit 12, was a pretty, I think a pretty good one, where we tried to provide some color in terms of what our capital planning process is at Aquarion.
So I think a takeaway that I'd like to

leave you with is I think with respect to Aquarion, our process is probably going to be a bit more robust, just given some of the governance and structures we have in place at Aquarion. You know, in response to 12, we talk about the charge of the project management committee. And the project management committee consists of -- I sit on the committee, as well as John Walsh, our vice-president of operations who oversees our Massachusetts and New Hampshire operations, both part of our Connecticut business, as well as Dan Lawrence, VP of engineering and planning, and a couple of other of our VPs.

So this is a group that gets together on a monthly basis at a minimum. Many times it's between, you know -- it's on other occasions as well with specific projects in mind. This group is charged with overseeing the capital plan on an annual basis, as well as a five-year capital planning process that we have in place. So I think, you know, some of the structures that we have in place, in terms of how we oversee our capital requirements, how we're assessing risk across all the systems, and the level of investment that we need to make to ensure that we've got -- that we're delivering a good product and a reliable service to our customers.

Q. Okay. So maybe you can expand a little bit and clarify for me. And I apologize if I'm being a little thick. But earlier when Mr. Kreis from the OCA was inquiring, there was discussion about Abenaki, post-merger, being a stand-alone entity from Aquarion. And I think you indicated that, yes, that Abenaki would be a completely legal and separate stand-alone entity; is that right?

A. (Morrissey) Correct, a separate legal entity. Yeah.

Q. Okay. So how is it going to work? You were just talking about, you know, the capital expenditure plans that Aquarion corporately proceeds with and the measures that they have in place to move forward with that for their various investments. But how is that going to work in terms of coordination with Abenaki, who's a separate legal entity? Is there going to be -- what kind of control is going to be involved between Aquarion and Abenaki? Or are they going to have their own -- is Abenaki going to have their own view and vision of what capital improvements will look like, separate from Aquarion?

A. (Morrissey) Well, I think it's all one and the same. So we have a separate legal entity for Abenaki, as we do for Aquarion Water Company of New Hampshire and Massachusetts and Connecticut. The PMC transcends all of the legal entities. So with the focus of -- this is kind of a standard process where we're evaluating what the capital needs of each of those respective businesses are. And there's a prescribed process by which, you know, an opportunity is identified, and then it's going to -- you know, we'll evaluate various alternatives to that in terms -- because there's always -- you know, that's usually where you're going to capture the greatest amount of benefit, to the extent you're selecting an appropriate alternative. And from there you go into various design phases until you're executing that project.

So the PMC kind of transcends, and I expect it will transcend for Abenaki. Abenaki will -- there'll be -- on an annual basis, there'll be a separate one-year capital budget put together, as well as a five-year capital budget, which will lay out what the needs of the business are. But this is part of, you know, a larger business planning process. As we talk about our capital budgets, both on a one-year and five-year basis, we're also looking at the overall business at the same time when we're budgeting on a one-year and five-year basis. Because what's going to be important to us when we do that is we're going to be evaluating each of these businesses and the cost of providing service, as well as what do we expect to be the future rate requirements for each of those businesses.

So I'm sorry for the lengthy response, but hopefully I'm providing some backdrop that's helpful to you.

Q. Thank you.

Okay. I want to go to earlier today, we talked a little bit about board of directors. And my notes indicate that you had clarified that the existing board for Abenaki is no longer, will be no longer post-acquisition. Post-acquisition, a new board would be put in place, but that new board, any fees or compensation would not be -- well, let me ask you this: Is that new board going to be compensated?
A. (Morrissey) No.
Q. Okay. And any fees associated with that board you indicated would not be absorbed at any point by the ratepayers; correct?
A. (Morrissey) Well, there's no fees that will be absorbed by --
Q. Okay.
A. (Morrissey) That's not relevant.
Q. Okay. You also indicated earlier that the board of directors for Aquarion and the board of directors for Eversource, those obviously are in existence. Are those board members compensated?
A. (Morrissey) The Aquarion board is not

compensated. The Eversource board I'm sure is compensated for a publicly-traded enterprise. But as Mr. Kreis had inquired earlier about the recovery of those costs, I think that was the point where I don't know to what extent or how those costs are recoverable, or if they're even requested to be recovered, and that that would be determined at an individual state level during a general rate proceeding.

Q. Okay. Yes, I do remember Mr. Kreis talking about that topic. Additionally, I believe Mr. Mueller commented. And it was my understanding that there was some comment that the board of director fees, if there were fees associated with the board of directors as to Aquarion and Eversource, there might be some fees that could be included in a future petition by Aquarion, wherein there could be a representation that there was a cost savings. Do I have that right?

A. (Morrissey) Can you repeat the question? I think I lost you.

Q. Sure. I don't know if I understood this correctly, so I'm asking you to clarify.
A. Sure.
Q. My understanding in prior testimony when Mr. Mueller was speaking was that you had commented that board of directors fees, those as to Aquarion and Eversource, at some point those fees could in fact be included in a petition that could be filed by Aquarion in the future, wherein Aquarion would be articulating or representing that there's been a savings to ratepayers. Did I understand that correctly?
A. (Morrissey) No. I think that's two separate issues. One I think was the subject of transaction costs and the potential future recovery of transaction costs related to this transaction, that they would -- we are not asking for recovery of those costs at this time.
To the extent that savings can be demonstrated by the Company, we would propose or put that forward in a future rate proceeding similar to what we've done in

previous transactions before the Commission.
Q. So my apologies then. So it wouldn't be limited to just a proceeding if there was a rate savings. It would also be in a situation if Aquarion were going for a rate increase at some point in the future -- is that right -- for those transaction costs?
A. (Morrissey) Yes, any recovery of transaction costs would have to be proposed in a future docket, a future proceeding that would be part of a general rate filing, correct.
Q. Okay. I want to move to Exhibit 21, which is reflective of one of our questions, Bow 1-5. And I just want to read it for you, Mr. Morrissey. I don't know if you have it in front of you. But our question or request was, "Given the lack of records from the expedited departure of an office manager, how many NESC employees have access to records/data? What is the turnover rate for employees? How will this change under the new proposed acquisition? How long does Aquarion keep records or data? Who will be doing the meter readings post-acquisition,

and are those records electronic or paper?"

And in response, I really want to initially focus on the first response, which was, "Abenaki Water is not aware of a 'lack of records' as indicated in this request. NESC maintains access to records and data on its network server."

So for Aquarion, how does Aquarion handle records that may have been maintained by employees, e-mails and records that may have been maintained by employees at the time when an employee may be departing the Company?

A. (Morrissey) So the question has to do with specific e-mails from employees, present employees of Abenaki or of Aquarion Water?

Q. Okay. I'm trying to understand. The question that was submitted was with regard to a situation where an Abenaki Water employee unexpectedly left the Company. And when that person left the Company, a number of the records, e-mails, communications were deleted. And I'm trying to understand what is Aquarion's policy on retention of records.

And if you have a person in the field and they're gathering data and they had e-mail communications, if they were to suddenly leave, how is that handled through Aquarion?

A. (Morrissey) Sure. Okay. I'll do my best to respond, based -- and try to stay within -- not overstep the foundation of what I actually know and don't know in terms of what we do on record retention.

We do actually have a record-retention policy. This is something that we put together probably seven or eight years ago, really, at the counsel of some of our attorneys just saying, hey, this is -- it's a good idea to put in place a record-retention policy. So --

CHAIRWOMAN MARTIN: Mr. Morrissey, I apologize for interjecting.

Mr. Gallo, can you please put yourself on mute when you're not speaking and leave it on mute? Thank you.

Mr. Morrissey, go ahead.

A. (Morrissey) Sure, sure. So we do have a record-retention policy that is in place.

You know, in most instances where we're concerned, you know, about it, you know, if you think about the types of data that an organization has -- so, you know, some data is related to customers, some may be contractual contracts that we have, some may be employee-related data in terms of sensitive issues that may have, you know, information, as far as it might be HIPAA or medical-related. So, I mean, when we talk about the -- of what could actually fall under the umbrella of records retention, it can get pretty broad pretty fast. We do have a policy that's in place. In a lot of cases, it's things where you don't want to expunge them, you actually want to retain them. And, you know, this is where, from a legal standpoint, we'll get counsel on holding things for statutory limits, in terms of whether it's seven years or something, and shorter than that in other respects.

So I don't know any of the particulars in terms of the employee that you're suggesting from Abenaki. That may be a

Don -- a Mr. Vaughan question to respond to. I'm not familiar with that case or what records were not retained.

I will say that if that employee were an Aquarion employee and was touching the customer work, was being dispatched to handle that either at the call center, from a call that that person's handling, there would be notes in terms of the contact information that would be retained, and that would show up on the customer account. Or to the extent that, you know, some field activity, a notification was dispatched, so maybe a meter was changed out or there was a leak investigation, or maybe there was a high-pressure/low-pressure water-quality complaint, those types of notifications, those things are retained within our SAP system. So that information would be available. That's not going to be subject to an employee getting up and going and leaving the organization. That resides within the SAP system, and we would have the benefit, or the customer would have that benefit. And the rep handling that interaction would have the benefit of that history in responding to that customer's issues.

So I'm not -- I hope I'm helping address the question you have. Again, I can't comment on the specific issue that you're citing in the first part of that question about the lack of records.

Q. I appreciate that, Mr. Morrissey. Thank you.

Mr. Vaughan, could you clarify for me what your understanding of the phrase "lack of records" means?

A. (Vaughan) Yes. I am unaware of a "lack of records," as per the response. All the vital records we have are contained within our NDS software billing system, our general ledger. Operating records are kept in -- on an electronic basis, as well as on paper. And those records are contained within the organization, whether they be on a Company-owned computer, laptop, as well as Company files.

As far as e-mails are concerned, I am unaware of those. The information contained in any, you know, supposed e-mails, I'm not sure what that might have been about. So I really can't adequately address this because I'm just unaware of the lack of records.

Q. Okay. So I just want to clarify. Are you aware that there was an employee who departed Abenaki, and subsequent to his departure e-mails were deleted?

A. (Vaughan) I am not aware of an employee leaving Abenaki and his e-mails were deleted. I am not aware of that.

Q. Okay. I wonder if Mr. Lachance were here, if he would be aware of it. Is he present today?

A. (Vaughan) No, Mr. Lachance is off site today, and for the week.

Q. Thank you.

Would you agree, Mr. Vaughan, that if e-mails were deleted and e-mails were lost and not retained post the departure of an employee, that would constitute lack of records?

A. (Vaughan) Well, it depends on the content of the e-mails. And, you know, we don't encourage personal e-mails. I'm not aware of any business or Company e-mails that may have been deleted. It is very difficult to monitor, you know, what transpires at any particular work station. So I really can't comment further on it.

Q. Does Abenaki have a retention policy?

A. (Vaughan) Yes.

Q. For e-mails?

A. (Vaughan) Yes, it does.

Q. And what is that?

A. (Vaughan) We keep records usually a minimum of six years to seven years. We have that policy basically with all of the subsidiaries.

Q. So you keep e-mails for all employees, whether they're currently in your employ or they've left, for six to seven years?

A. (Vaughan) Well, no, not necessarily e-mails. We keep operating records, system vital data, information relative to that; regulatory filings in various dockets; health department or DES filings. We also keep records of, you know, laboratory tests. A whole host of items that we retain.

Q. Do you have a similar retention for just e-mails? So I'm not talking, you know, if an employee sent a personal e-mail. I'm just saying if you have employees that are obviously using their computer and sending e-mails, work-related, does that retention policy you just spoke of also include work-related e-mails?

A. (Vaughan) Well, we have access to the Company e-mails if they're -- obviously if they're of a business nature, we can access the e-mails that any particular employee may be involved in. But beyond that, I think that's where, you know, if it's of a personal nature, I really can't comment on that. It's a little bit of a gray area.

Q. Okay. Thank you.

This question goes back to Mr. Morrissey. Exhibit 22 I believe is a reference to -- my apologies, one second -- Bow 1-8. And the specific area I'd like to focus on, Mr. Morrissey, is that, in this question it was asked what will be -- I'm sorry. We were talking about in this question administrative support. And currently, New Hampshire administrative support under the Abenaki agreement, affiliated agreement, is 61.50 an hour. And these charges are marked off -- based off market rates after -- according to Abenaki. And so we were curious as to the basis of those rates. And we looked, actually, at Glass Door salaries and did some research, and average rates for administrative work, administrative support, was more in line with about 30 bucks an hour. And so while I appreciate that the rate includes salaries and benefits, I'm curious: How does that line up in terms of Aquarion's administrative rates currently?

A. (Morrissey) I really -- I don't know. In terms of -- excuse me. This isn't something I was a witness on. But I think what's relevant is the question about salary and benefits or charges that are passing through to the Abenaki customer. I mean, you're going to want to be assured that, yeah, A, the cost is reasonable, but, B, that there isn't any type of a mark-up associated with it.

In terms of assessing or opining on whether a $61 rate is appropriate or not, honestly, I have no idea. I have no idea. It depends upon what's coming -- what that person is doing and how they're being compensated, but --

Q. I guess -- I'm sorry. Go ahead.

A. (Morrissey) No, no. Please.

Q. I wasn't -- at least I didn't think I asked you to opine on the reasonableness of it. I asked what Aquarion's position was in terms of a similar situation.

So if currently Abenaki has an affiliate agreement with NESC and there are administrative support charges in there at the rate of $61 for administrative support -- so it's interesting to try to get a sense when you're talking earlier about this being a completely separate legal entity. And I believe a question was asked earlier today about the affiliated agreement, the

affiliated agreement that's in place currently as between Abenaki and NESC. Will there be a similar agreement with regard to Aquarion?
A. (Morrissey) There will be, yeah.
Q. There will be?
A. (Morrissey) Yes.
Q. Will that agreement have charges in it with regard to administrative charges?
A. (Morrissey) Well, it's -- the agreement, and I believe it was shared as part of the docket, in terms of the affiliate agreement, not related to Abenaki, that hasn't been crafted yet. But we believe it's going to be substantially the same as what we have in place for our other operating subsidiaries, including Aquarion Water Company of New Hampshire.

So we're not going to -- within those agreements, we're not delineating by position of who's charging their time over to the various subsidiaries. What's happening within that, and what's going to happen with Aquarion, is to the extent you have somebody in one of the other operating companies working on Abenaki, they would on their timesheet charge time to that. So if that person is making -- say they're making 80 grand a year, at 40 bucks an hour, just to do the math here so that this thing is in the ballpark. So 80 grand a year, 2,000 hours a year, that's 40 bucks an hour. And assume that the payroll overhead related to that person, in terms of payroll taxes, medical, whatever, say that's 50 percent. So that's another -- that's essentially adding 50 cents on the dollar. So in that case, if you have an $80,000-a-year employee with a 50-percent payroll overhead rate, that effectively gets you to the $60 an hour here.

But what's relevant isn't so much that the affiliate agreements aren't going to identify and delineate everyone who's charging over, it's just going to be when they come over, their time in their timesheet will come over at cost. There's not going to be any mark-up to that. There will be a separate entry that will capture the overhead, the payroll overhead associated with that employee captured in the benefits. And again, from our perspective, if it's a Connecticut employee doing work for the New Hampshire subsidiary, if you're a Connecticut ratepayer, you're going to want to -- you know, you're only going to want to pay for what you're getting services for. So if that employee isn't working on Connecticut, they're working on New Hampshire, you're going to want -- you shouldn't be paying for that. That should be picked up by the New Hampshire ratepayer. And that's essentially the essence of the affiliate agreements, so that each party -- each entity is paying for the cost of service in their respective jurisdiction.

Q. Okay. Thank you.

A. (Szabo) If I can add to that as well. One of the other items that wasn't addressed here is, and I think this might be closer to what you're asking, Cristy, with regards to the support that our operations provide in terms of customer billing, to be comparable to what's being discussed in this request here, so we have an affiliate agreement in place that allocates the cost to provide customer service, including billing, processing of payments, which is based on number of customers. So we have our entire customer service organization has the associated labor costs with those employees. It gets, you know, added up into one big pool and gets allocated to the various operating entities based on customer count. We also have our IT services because we need, you know, the systems in order to provide those services. Those costs are also captured and allocated based on customer count. So it's a different methodology that we use in our current arrangement, which is why we don't have a comparable to this $61.50 per hour, because we don't look at it that way. We look at it more on a cost per customer, based on the way the allocation occurs.

Q. Okay. Thanks, Debra.

I'm hoping I can ask -- there were a couple questions that were sent to me. There were a couple individuals this morning that could not get into the hearing, and they now work a second shift, so they cannot be here on this part of the call. They tried getting in earlier, but they could not get in. I'm assuming -- do I have the okay to go ahead with those questions?

CHAIRWOMAN MARTIN: Questions from other intervenors?

MS. BRESSON: Yes.

CHAIRWOMAN MARTIN: You can go ahead.

MS. BRESSON: Thank you.

Q. So this is for Mr. Morrissey. Mr. Preul and Mr. Phillips are both from Tioga in Belmont, and they would like to know if Aquarion actually has a backhoe with a qualified operator to run it.

A. (Morrissey) If we have a backhoe and -- within New Hampshire to serve these customers?

Q. Yes.

A. (Morrissey) I think right now my guess is we do not, to be -- but to the extent that resources are required to do the work within these service areas, we're going to have those resources lined up to take care of it. I'm not sure what the backhoe would be used for. Much of the work that we do we will outsource to local contractors to assist us, if it's related to construction. So...

Q. But the water systems that you're seeking to purchase all have -- most of their infrastructure is underground. So I don't -- while I appreciate that the question may sound a little bit like the minutia, the reality is that Abenaki does not have a backhoe. And Abenaki has had to -- through the affiliate agreement is my understanding, the ratepayers are paying basically premiums when that kind of work is necessary. When there's leaks, when there's work that needs to require lines to be dug up, there's not a backhoe that's available.

So, a fair question, I believe, the thought being that wouldn't the entity itself, the new Abenaki, wouldn't that entity have some additional resources in terms of those kinds of -- that type of equipment, capital equipment available to it, unlike what the current situation is, where it has to -- we have to go through NESC and are charged additional costs for that?

A. (Morrissey) If it's cost-effective to acquire that equipment, we would acquire that equipment. Again, I'm not sure to what extent -- and again, this is where Don perhaps can add some color to it. But typically, you know, it depends upon the extent of the services that are required where you might need a backhoe. I mean, typically, you know, the operations in Abenaki are not much different than what we're seeing in the other states that we operate in. Half of our infrastructure is underground. We've got, you know, 3100 miles of water mains here in Connecticut and hundreds of miles in the other two states. So we're familiar with it. We know what equipment is necessary to get the job done.

The question is what is the most effective use of capital to get the job done.

If it makes sense to buy that, we buy it. To the extent that we're only going to use that backhoe three times a year, then it's better off to hire it out with a contractor and bring it in, then hire it out three times a year. Again, I don't know enough of the details behind this. But it's -- I think in terms of judging it without having all the facts and circumstances in front of us could be a little bit dangerous.

A. (Vaughan) If I may jump in here, Don. As you say, our infrastructure, much of it is underground. That said, we have to weigh the frequency that we would use a piece of equipment like a backhoe for, say, leaks and breaks. That's primarily where we would use that kind of equipment. We probably have maybe a leak every four to eight weeks. Very unpredictable frequency. In the winter, you could have one, you know, every other week, something like that. But we have found that if we invested the funds in an excavator or a backhoe, it would really be cost-ineffective.

With respect to all of our subsidiaries, we do not have any backhoes. We have roughly 7,000 customers in Connecticut. We do not have a backhoe. Over the past, we have found it is much more cost-effective to the customer to get a service or get services from a contractor, which would include not only a backhoe, but everything associated with it, like a dump truck, a service truck. So we think that's the most cost-effective solution is to solicit contractors, independent contractors, for that kind of equipment.

In addition, we would have to have licensed operators. We would have to -- you'd have dump truck operators. We'd have to actually get another piece of equipment. And whatever that cost is, whatever cost we get from that third party, we transpose that -- or translate to our O&M expenses at cost. So there's no mark-up on it. So it just seems like it would be a very, very ineffective way to obtain a piece of equipment.

Q. What's the cost of a backhoe, Don?

A. (Vaughan) Probably, and it depends on the location, I'm going to say it's probably about a hundred and -- again, I'm estimating -- $120 an hour with an operator, maybe a little bit more, maybe a little bit less. And, you know, you can't just measure the expense of a backhoe. By the time they're on the job, you have mobilization and all the time that it takes to, you know, come to a job and leave a job.

Q. Thank you. I think my last question is for Mr. Morrissey.

When we were talking earlier about the new Abenaki being an independent legal entity, what will their financial filings look like? Will they be filing under -- separately?

A. (Morrissey) Yes.

Q. So would they be filing in any way, I guess as an operating entity of Aquarion or Eversource? How does that work?

A. (Morrissey) So there's an annual filing requirement with the New Hampshire PUC. So, similar to what we file on an annual basis with Aquarion Water Company of New Hampshire, there will be a separate filing for Abenaki. Those reports are filed I think by the end of March of each year. So that will continue just as it has been happening in the past, separate Abenaki financials.

Q. Okay. Thank you so much.

MS. BRESSON: That's all I have at this time.

CHAIRWOMAN MARTIN: Thank you, Ms. Bresson.

Mr. Getz, do you have questions?

MR. GETZ: Yes, I do, Madam Chair. Thank you.

CROSS-EXAMINATION

BY MR. GETZ:

Q. Good Afternoon, Mr. Morrissey. I have a few questions I would like to follow up on from Mr. Kreis. I think he covered very well a lot of the issues, explaining the implications, the effects of the acquisition. But if we could start and if you could turn to Exhibit 14. And that's OCA Request 1-3.

So in that response, the Company

indicates that the purchase price is approximately 40.56 million, and that includes a premium of approximately 23.77 million. And what I'm trying to do is understand how this purchase price was arrived at. And I believe in speaking with Mr. Kreis, you agreed that this was a significant premium. Is that fair to say?

A. (Morrissey) In relation to book value, yes.

Q. And I believe you said something about the purchase price and/or the premium reflecting how water companies trade; is that correct?

A. (Morrissey) Yes.

Q. And can you explain a little more about what that means, about how water companies trade? Is there some kind of measure that's used in the industry of 1.5 times book for the premium or X times revenues or earnings? What's the measure that's applied in that market for trading water companies?

A. (Morrissey) Sure. So by way of just some context, I was referencing earlier the fragmentation that exists in the U.S. in terms of water companies.

In the U.S. today, there's about eight or nine publicly-traded, investor-owned water utilities that trade. And similar to just about everything on the market today, everything is trading at a premium. We're at all-time highs on the S&P and NASDAQ, as we all saw last week when the Dow was pretty close to all-time highs. So it's hard to find anything that's not trading above book.

To your question about, you know, in terms of what do you see or what do I see when I look across the market in terms of what companies may pay when they're acquiring another entity, different companies will look at a multiple of rate base as one particular metric and may look at --

[Court Reporter interrupts.]

A. (Morrissey) So another multiple might be EBITA, E-B-I-T-D-A. That might be a multiple that other companies may look at. Hopefully that's helpful.

CHAIRWOMAN MARTIN: Mr. Getz, you're still on mute.

MR. GETZ: My apologies.

BY MR. GETZ:
Q. So it sounds like, Mr. Morrissey, you're saying there's only a small number of potential acquirers in this market. Is that fair to say?
A. (Morrissey) Yes.
Q. So to the extent you're comparing your acquisition of Aquarion -- or of Abenaki to what's going on in the market generally, is that a fair comparison, given the limited number of buyers and sellers?
A. (Morrissey) Yeah, that's really a great question. Well, it's a data point, right. I guess, you know, it's something to draw upon if you're looking at specific transactions, see what else has happened. Each circumstance -- of course, there'll be some unique circumstances that may warrant either higher or lower multiples of what you might pay.
Q. So for the premium that you've paid for acquiring Abenaki, is it fair to say most or all of the value in the acquisition relates to the Massachusetts and Connecticut

properties?

A. (Morrissey) No, I'm not saying that at all. And frankly, you know, I don't know the answer, in terms of how to go about allocating value across those three enterprises. I think what's relevant in a proceeding such as this is, you know, what are we doing with that premium, and is there -- you know, is there any desire to recover that or put that on the backs of our customers? And we made that decision, that, no, it does not warrant it and it's not appropriate to put any acquisition premium on the customer. So it's basically completely out of the equation.

Q. Well, it's a premium you decided to pay. So is it -- are you saying that it was really decided on a consolidated basis, that it didn't look at property by property, state by state?

A. (Morrissey) In terms of the ultimate price that was paid, I could not tell you how, you know, precisely how it was done. I mean, I know there's another multiple data points that we look at when we're deciding upon an acquisition price, including the ongoing negotiations that we have between buyer and seller. So...

Q. So really the purchase price, then, just represents the price a willing buyer and seller could agree to.

A. (Morrissey) Of course, what the market will offer, the buyer and seller what they agree on.

Q. Could you also turn now to Exhibit 10, please. And I think Mr. Kreis asked some questions about this as well. But in the response it says that in the due diligence process, Aquarion was able to assess the condition of the water systems controlled by NESC and determined that Abenaki faces unique operational challenges due to its relative size, small customer base, capital investment needs and geographically dispersed service territory. And then the answer concludes by saying Aquarion's approach will enable it to assess Abenaki's strengths and weaknesses and identify areas of improvement to align with

Aquarion's high operational standards, without the added considerations of an operating company merger integration. Have I read that correctly?

A. (Morrissey) Yes.

Q. So I'm trying to reconcile this answer with the purchase price. My takeaway is -- and I didn't think Mr. Kreis's questions were obnoxious really in this area at all. I think it's an area to be explored.

But my takeaway from this is that Aquarion was saying there are significant risks in the New Hampshire properties; that the properties are not up to Aquarion's standards, and that by implication, that Aquarion is going to have to spend money to bring these properties up to standard. Is that fair to say?

A. (Morrissey) Well, I think what we've said in the response is what our intentions were to say within the response.

To the extent that you highlighted, you know, other additional -- that there might be some additional risks related to systems with operational challenges, I think that's accurate. Your statement that this will require some additional capital investment to solve these operational issues, I think that's accurate.

Q. Do you have an opinion, as the COO of a major water utility in New England, if the -- if Abenaki were selling the New Hampshire properties alone, what an acquirer might think of those properties? Would an acquirer be prepared to spend a -- excuse me -- to apply a premium to book for such properties?

A. (Morrissey) Yeah, I wouldn't want to speculate.

Q. Well, I guess it's hardly speculation. I think it seems to be within your area of expertise to have -- you know, especially looking at how the premium has been applied to the consolidated company, and having done due diligence of the companies in all three states, asking whether you have an opinion on whether a premium above book would be justified for the New Hampshire properties.

A. (Morrissey) Yeah, and the reason why I mention it would be speculation, because your question was what do I think others would do. Well, I can't speak on behalf of what others might do. But again, to provide a little bit of color in terms of, you know, how different parties can view the potential for value, if you were to pay a premium, sometimes -- in the eyes of some beholders, to the extent that there is significant capital required after a transaction, that might be viewed as a good thing because that will allow you to get a return on each, you know, dollar for each -- each dollar you put in you'll, through the rate-setting process, you'll have an opportunity to earn a return on that. So that could be pretty desirable if you see an acquisition with a great deal of capital needs, right. So the eyes of some beholders might say, hey, Abenaki. There's a big capital requirement there. There's an opportunity to invest. That's a good thing because I'll be able to recover it.

What is -- where things get complex and complicated is you can't do -- you can't look at things in a vacuum like that. You take a look at the Abenaki system right now and the customers, the customer rates that exist, the small customer base that you have in New Hampshire today, what the existing rates are, and the ability -- you end up with affordability issues. Am I -- I'm looking -- judging by your face, am I confusing you or am I okay?

Q. No, we're good.

A. (Morrissey) So the concern would be is you can't make a decision in a vacuum because it may be a challenge to recover those investments because your customer base may have a challenge in affording to pay those rates that are required for that investment, you know, to be made.

And then going back to your point earlier in the discussion, Attorney Getz, you know, it's about risk related to the systems, operational risk. And for a company like Aquarion, you know, one of the things that we're always -- I'm certainly conscious of is reputation risk and brand risk.

So the fact that we're coming in and we're serving these new communities -- I've got a brand to protect. And within that brand I want to make sure the folks that come onboard, that I want happy customers. This isn't a one-shot deal. We're in a business where we put together 50-year water supply plans. We're in it for the long haul. So it's not a -- you know, we don't think of things in light terms or in simple terms.

But in terms of your initial question, in terms of how do you -- how do different parties view different transactions and how do they value, my response to you is it depends. It's going to vary by party.

Q. So it seems to me you've said a couple of things in that answer, I think one of which reflects the peculiarity of regulated utilities; that even though this is a situation in New Hampshire where investment is needed to bring the properties up to standard, that if you as the new acquirer are acting reasonably, then you should be assured of recovery of those costs. Is that fair to say was part of your answer?

A. (Morrissey) Well, no. Well, I think it's not a -- I want to be careful about, you know, absolutes in responses.

We are familiar with the regulatory construct that exists in New Hampshire and Massachusetts and Connecticut. To the extent that we make investments that are prudent and we can demonstrate prudency, yes, we would like the opportunity to recover a return on those investments.

Q. But you also said that, again, in a regulated world, there may be some affordability limit to rates. But in the unregulated world, looking at an acquisition of some property, some company that was -- hadn't been maintaining its facilities, that the O&M was lacking, in such a distressed type of property you would expect that such a facility would sell at a discount to what otherwise would be a market price for a comparable property. Is that fair to say?

A. (Morrissey) Yeah, you would think if assets were in disrepair, then you would pay a discount on those assets that are in disrepair, all other items held constant, yes.

Q. Are you aware of the -- and I take it you are, as part of the due diligence -- that the Commission opened the docket IR 21-024, investigation into the water-pressure issue in the Rosebrook Water System? Are you familiar with that?

A. (Morrissey) Yes, I'm aware of that. Yeah.

Q. And are you aware, on Page 3 of the Order of Notice, that the Commission set forth that in the docket it would be investigating issues related to whether Abenaki has fulfilled its duty under RSA 374:1 to provide, in its Rosebrook Water System, service and facilities that are reasonably safe and adequate; whether Abenaki has exercised reasonable efforts to comply with Commission orders; and whether Abenaki should be subject to a fine under RSA 365:41, or other potential remedies under RSA Chapter 374, and other applicable standards, statutes and rules, including appropriate action by the attorney general pursuant to RSA 374:41? Are you familiar with that?

A. (Morrissey) Yeah, in broad terms I'm familiar with that proceeding.

Q. And you're aware that there is a ongoing, I guess it would be called "stakeholder discussions" about the approach to the water-pressure issues that have been identified by the Department of Environmental Services?

A. (Morrissey) Yes, I am.

Q. And have you or anyone working for you formed an opinion on what would be the best and most cost-effective solution to the issues identified by DES?

A. (Morrissey) Yeah, I have a couple of executives that work for me that are working closely with Mr. Vaughan and Mr. Gallo on this subject and collaborating and sharing ideas and views in terms of the best approach and the most cost-effective approach to the problem there.

Q. So there hasn't been any decision yet as to what Aquarion thinks might be the best alternative?

A. (Morrissey) Well, I think the solution is going to come in where everybody's going to be singing from the same song sheet, right, where all the parties are coming together and are going to be evaluating the alternatives. They're going to understand the costs associated with each alternative, the risks related to each of those alternative, and what the potential rate implications of each alternative are going to be. So this is not going to be an -- this isn't -- Attorney Getz, I don't see this as a "us versus them." This is a "we." And one of my charges coming in here is, you know, you're representing what's going to be a very important customer of mine, Omni Hotel. I'm going to want to turn things around, and I'm going to want to make sure that our customers up in Bretton Woods are happy customers and that they feel that they have my attention and our organization's attention to the needs of the business.

So I want -- I would like this resolved.

I'd like to take the risk off the table, decide a path forward, understand how it's going to be paid for, so that everybody understands, you know, the pros and cons of what the solution may be.

MR. GETZ: Okay. Madam Chair, I think I would end my questions on that very positive answer from Mr. Morrissey. My client will be glad to hear it. Thank you.

CHAIRWOMAN MARTIN: Okay. Thank you, Mr. Getz.

And Staff, who will be conducting the questioning? Ms. Ross?

CROSS-EXAMINATION

BY MS. ROSS:

Q. Hi, there. Thank you, Mr. Morrissey and Mr. Vaughan, for what's been a long afternoon. I have just a few follow-up questions. I think they relate to some of the answers we heard when the OCA was questioning you.

Mr. Morrissey, you indicated that in your recollection, one of your earliest conversations with Mr. Vaughan that led to this transaction, you discussed operational

issues. Do you recall that answer?
A. (Morrissey) I do.
Q. Were those operational issues primarily related to the New Hampshire water operations?
A. (Morrissey) I believe they were. I mean, frankly, I can't recall a lot of the details, other than the discussion was largely surrounded around the New Hampshire operation and, you know, some of the challenges that were being --
Q. That's fair. It was a while ago, and you've probably had lots of other conversations.
So at that time, do you recall whether you were talking about an acquisition of all of the companies, the Connecticut, Massachusetts and New Hampshire, or were you only focused on New Hampshire in those early discussions?
A. (Morrissey) I believe the initial discussion was focused on New Hampshire.
Q. Okay. We've had some conversations about the fact that there's a pending rate case for Abenaki. Are you aware that the rate

increase that's been requested by the Company in that case is a twofold rate increase, even if it's done on a consolidated basis?
A. (Morrissey) I'm sorry. A two-step?
Q. Twofold, two times --
A. (Morrissey) Oh, two times.
Q. -- double.
A. (Morrissey) Oh, I'm sorry. I didn't realize it was double. I realized it was a very, very large increase.
Q. And were you also aware that there would have to be additional step increases for additional capital spending for the Company that --
A. (Morrissey) I was aware that there was also a step increase proposed as part of that --
[Court Reporter interrupts.]
A. (Morrissey) I believe I said I was aware that there was a step increase associated with this latest filing.
Q. In your experience with acquisitions in New Hampshire, have you been in a merger document where the -- merger docket, excuse me, where the target is facing a twofold or

greater rate increase during the process of the merger?

A. (Morrissey) I have not.

Q. So would you agree that this is a somewhat unique situation in New Hampshire?

A. (Morrissey) I think it's -- I think it's unique, for sure. I think it's important to separate the two issues. I think they're independent. Unfortunately, you know, they came about at along the same time frames. But certainly based upon what I've seen of the Abenaki operations and the financial performance, there is dire, dire need for rate relief for that business. I mean, a regulated utility that loses, I think it lost $60- or $65,000 net loss for a company this size, like 20 or 25 percent of total revenues, that's massive. And this is a regulated water utility where there should be -- the shareholders, the people providing equity capital, should have an opportunity to get a return on that. And Abenaki just hasn't seen that. So it's unfortunate that it's taken -- I think it's probably taken a little bit too long to get in for this rate proceeding. But it is there. And it is unfortunate, the magnitude to which the increase is being requested at.

Q. Would you agree that having the proposed target company in the middle of a rate case confuses the inquiry with regard to the impacts of the merger?

A. (Morrissey) I don't think it confuses. I don't think it confuses anything. And let me just speak in terms of the merger docket in terms of certainly not providing any net harm or to even looking at what's sitting on the record in terms of the benefits that are going to come from this merger transaction.

I think it's very clear and obvious that this is a good thing for the Abenaki customer. And to proceed with that, I don't believe it confuses or conflates anything. I think it's very, very explicit and obvious, in my opinion.

Q. Okay. Thank you. I believe you and Mr. Kreis talked a little bit about the fact that the current Abenaki rate case is based on the current Abenaki management structure, including Mr. Vaughan and some of the expenses that you are indicating will be removed as soon as the merger occurs.

Would you agree that a better or a more accurate rate-setting exercise would be based on a test year post-merger so that those changes could be taken into account in setting rates going forward?

A. (Morrissey) Well, certainly, you know, there are some changes that are going to take place with Mr. Vaughan exiting and some of the examples that we cited in terms of the savings.

I think the challenge for us all, really, and I mean "the collective all," everybody that's party to this conversation right now, is that you're looking at a business, Abenaki, that is effectively a basket case. It is on the borderline non-viable, right, a regulated utility that is losing money. There is a need for rate relief.

So I think to suggest that we wait until things settle out at a future date, I think that's just going to exacerbate the problem even further. So I think some form of rate increase is required. Again, I'm stating my opinion, obviously. This is the Commission's decision to make.

But, you know, I think there is still a hope that there can be some form of settlement that can occur, where there is a meeting in the middle where folks can -- there's some rate relief that's provided to an entity that truly needs it, but also being conscious of the fact that you've got some customers staring down a very, very large rate increase.

Q. Thank you, Mr. Morrissey. I don't have any further questions.

CHAIRWOMAN MARTIN: Okay. Thank you. We're going to take a 10-minute break until about 2:20. Off the record.

(Brief recess was taken at 2:06 p.m, and the hearing resumed at 2:21 p.m.)

CHAIRWOMAN MARTIN: Okay. Thank you. Let's go back on the record. The

Commission has decided to close with that for the day. We will resume this hearing tomorrow morning at 10 a.m. Thank you, everyone, for all of your testimony today, and we will see you tomorrow at 10 a.m.

(Whereupon the Afternoon Session of Day 1 of the hearing was adjourned at 2:22 p.m.)

C E R T I F I C A T E

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