

1 STATE OF NEW HAMPSHIRE  
2 PUBLIC UTILITIES COMMISSION

3

4 January 13, 2009 - 10:06 a.m.  
5 Concord, New Hampshire

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

RE: DW 08-098  
AQUARION WATER COMPANY OF NEW HAMPSHIRE:  
Notice of Intent to File Rate Schedules.  
(Hearing regarding temporary rates)

PRESENT: Chairman Thomas B. Getz, Presiding  
Commissioner Graham J. Morrison  
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. Aquarion Water Co. of New Hampshire:  
Steven V. Camerino, Esq. (McLane, Graf...)

Reptg. the Town of Hampton, N.H.:  
Mark S. Gearreald, Esq. (Town Attorney)

Reptg. Residential Ratepayers:  
Rorie Hollenberg, Esq.  
Kenneth E. Traum, Asst. Consumer Advocate  
Stephen Eckberg  
Office of Consumer Advocate

Reptg. PUC Staff:  
Marcia A. B. Thunberg, Esq.

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



1

2

## E X H I B I T S

3

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

4

1

Petition for Temporary Rates,  
Report of Proposed Rate Changes,  
Testimony of Linda M. Discepolo  
and Supporting Schedules

9

5

6

2

Statement of Net Income Temporary  
Rate Schedule No. 1

9

7

8

3

Permanent Rate Filing (08-29-08)

9

9

4

Statement of Net Income Schedule  
No. 1

9

10

5

Report of Proposed Rate Changes -  
Temporary Rates

9

11

12

6

Order No. 24,648 re: DW 05-119  
(07-18-06)

30

13

7

Report of Proposed Rate Changes -  
Appendix A to Settlement Agreement

30

14

15

8

Order No. 24,691 re: DW 06-094  
(10-31-06)

30

16

9

Press Release titled "Water  
Authority Announces New CEO"

30

17

18

10

Aquarion Water Company's responses  
to Town of Hampton's Data Requests,  
Set No. 1 (01-09-09)

30

19

20

11

RESERVED (Amended version of  
Exhibit 10 - Responses to Town of  
Hampton's Data Requests, Set No. 1)

30

21

22

23

24

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good morning,  
3 everyone. We'll open the temporary rate hearing in docket  
4 DW 08-098, concerning the request by Aquarion Water  
5 Company of New Hampshire. An order suspending tariffs and  
6 scheduling a prehearing conference was issued on  
7 September 25, 2008, with respect to Aquarion's request for  
8 a permanent increase in revenues of 21.08 percent and a  
9 proposed temporary increase in revenues of 12.83 percent.  
10 A prehearing conference was held on November 5. On  
11 December 16th, a secretarial letter was issued approving a  
12 procedural schedule in this docket, calling for a hearing  
13 on temporary rates for this morning.

14 Can we take appearances please.

15 MR. CAMERINO: Good morning,  
16 Commissioners. Steve Camerino, from McLane, Graf,  
17 Raulerson & Middleton, on behalf of Aquarion Water  
18 Company.

19 CMSR. BELOW: Good morning.

20 CMSR. MORRISON: Good morning.

21 CHAIRMAN GETZ: Good morning.

22 Mr. Gearreald.

23 MR. GEARREALD: Good morning. My name  
24 is Mark Gearreald. I'm the Town Attorney for the Town of

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 Hampton. Thank you.

2 CMSR. BELOW: Good morning.

3 CMSR. MORRISON: Good morning.

4 CHAIRMAN GETZ: Good morning.

5 MS. HOLLENBERG: Good morning. Rorie

6 Hollenberg, Ken Traum, and Stephen Eckberg, here for the

7 Office of Consumer Advocate.

8 CHAIRMAN GETZ: Good morning.

9 CMSR. MORRISON: Good morning.

10 CMSR. BELOW: Good morning.

11 MS. THUNBERG: Good morning,

12 Commissioners. Marcia Thunberg, on behalf of Staff. And,

13 with me today is Mark Naylor, Jayson LaFlamme, and Doug

14 Brogan. And, at a later point in this proceeding, Mark

15 Naylor will be called as a witness for Staff. Thank you.

16 CHAIRMAN GETZ: Okay.

17 CMSR. BELOW: Good morning.

18 CMSR. MORRISON: Good morning.

19 CHAIRMAN GETZ: Good morning. Well, let

20 me confirm for the record then. We have representation

21 from the Town of Hampton as an intervenor. There's also

22 Petitions to Intervene, as I understand it, were granted

23 for the Town of North Hampton, the North Hampton Water

24 Commission, and for Mr. Cushing, on behalf of himself and

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 several other customers. But I take it that none of those  
2 parties is present today?

3 MS. THUNBERG: That's correct.

4 CHAIRMAN GETZ: Okay. Just note that  
5 for the record. And, Mr. Camerino, are you prepared to  
6 proceed?

7 MR. CAMERINO: Yes. Thank you. The  
8 Company has one witness this morning, that's Linda  
9 Discepolo, and we would call her to the witness stand.

10 (Whereupon Linda M. Discepolo was duly  
11 sworn and cautioned by the Court  
12 Reporter.)

13 MS. THUNBERG: Sorry, Commissioners.  
14 Staff just realized, with our witness and with the  
15 Company's witness, if we can have a moment to poll the  
16 rest of the parties as to whether it would be preferable  
17 for them to have both Mr. Naylor and Ms. Discepolo up at  
18 the same time for convenience of cross-examining. If you  
19 could permit us that time?

20 CHAIRMAN GETZ: Take a moment please.  
21 Off the record.

22 (Brief off-the-record discussion  
23 ensued.)

24 CHAIRMAN GETZ: Well, back on the

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 record.

2 MR. CAMERINO: Thanks. For the  
3 Commission's information, the Company's witness is going  
4 to testify regarding a reduced request for temporary  
5 rates, which it's my understanding that Staff is in  
6 support of. So, while we don't have a settlement to  
7 present, it's my understanding that the Staff's and the  
8 Company's position at least will be aligned here. And,  
9 so, I think Ms. Thunberg is thinking that it might make  
10 sense, for purposes of cross-examination, that the  
11 Consumer Advocate and the Town be allowed to cross-examine  
12 both witnesses at the same time.

13 CHAIRMAN GETZ: Well, maybe we don't  
14 need a brief recess. Is there any objection,  
15 Mr. Gearreald or Ms. Hollenberg, or do you need a moment?

16 MS. HOLLENBERG: No objection.

17 MR. GEARREALD: That's fine. Thank you,  
18 Mr. Chairman.

19 MS. THUNBERG: Thank you, Commissioners.

20 MR. CAMERINO: While Mr. Naylor is  
21 taking the stand, I can identify for the record the  
22 exhibits that I plan to mark through Ms. Discepolo's  
23 testimony.

24 The first exhibit is the Company's

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 temporary rate filing, which was part of its initial  
2 filing in the case. And, that has a cover sheet that says  
3 "Index", and it has four numbered items, "Petition for  
4 Temporary Rates", "Report of Proposed Rate Changes",  
5 "Testimony of Linda M. Discepolo", and "Supporting  
6 Schedules".

7 MR. GEARREALD: Steve, that's the  
8 temporary?

9 MR. CAMERINO: Yes. And, then, Exhibit  
10 Number 2 would be some corrective pages that were filed  
11 under cover letter December 31, 2008. It's two pages,  
12 entitled "Statement of Net Income". And, these simply  
13 correct two of the pages in the initial filing. The  
14 historical data in the first two columns of numbers were  
15 wrong. They don't affect the substance of the case, but  
16 we want to make sure the record is complete. So, that's  
17 Exhibit 2.

18 Exhibit 3 would be the Company's entire  
19 original permanent rate filing. Exhibit 4 would be two  
20 additional pages that were filed under that same  
21 December 31 cover letter correcting similar pages in the  
22 permanent rate filing. So, that's two pages entitled  
23 "Statement of Net Income", and in the upper right-hand  
24 corner says "Test Year 12 months ended 03-31-08". Again,

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 the two historical years needed to be corrected.

2 And, finally, Exhibit 5 is a package,  
3 which has not been previously filed. This is essentially  
4 the schedules from the temporary rate filing redone with  
5 the Company's revised proposal of a 7.65 percent increase,  
6 and copies of that have been provided to the parties. If  
7 we could mark all of those for identification please.

8 CHAIRMAN GETZ: The exhibits will be  
9 marked for identification as described by Mr. Camerino.

10 (The documents, as described, were  
11 herewith marked as Exhibit 1 through  
12 Exhibit 5, respectively, for  
13 identification.)

14 (Whereupon Mark A. Naylor was duly sworn  
15 and cautioned by the Court Reporter.)

16 MR. CAMERINO: And, also I would note  
17 for the record, I had a discussion with Ms. Thunberg, I  
18 think the Company is going to resubmit its filing in an  
19 electronic format with the pages consecutively numbered.  
20 So that, when we get to the permanent rate hearing, you'll  
21 be able to pick out pages of testimony, because all the  
22 testimony will be in that one exhibit. So, we'll resubmit  
23 that with Bates numbering.

24 CHAIRMAN GETZ: Okay. Thank you.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 LINDA M. DISCEPOLO, SWORN

2 DIRECT EXAMINATION

3 BY MR. CAMERINO:

4 Q. Ms. Discepolo, would you state your name and business  
5 address for the record please.

6 A. (Discepolo) My name is Linda Discepolo. And, my  
7 business address is 600 Lindley Street, in Bridgeport,  
8 Connecticut.

9 Q. By whom are you employed and what's your title with  
10 that employer?

11 A. (Discepolo) I'm employed by Aquarion Water Company of  
12 Connecticut. I am the Director of Rates and  
13 Regulation.

14 Q. What are your job responsibilities?

15 A. (Discepolo) I'm responsible for handling the financial  
16 matters of the Aquarion Water Company's three regulated  
17 subsidiaries.

18 Q. And, what was your role in preparing the filing in this  
19 case, and particularly with regard to the filing on  
20 temporary rates?

21 A. (Discepolo) I have prepared or caused to be prepared  
22 the financial exhibits in support of this application.

23 Q. And, are your professional and educational  
24 qualifications set forth in your testimony?

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

- 1 A. (Discepolo) Yes, they are.
- 2 Q. And, that, excuse me, testimony is part of the document  
3 that we marked for identification as "Exhibit 1". Is  
4 that testimony true and correct to the best of your  
5 knowledge and belief?
- 6 A. (Discepolo) Yes, it is.
- 7 Q. And, do you have any corrections to make to that  
8 testimony?
- 9 A. (Discepolo) No, I do not.
- 10 Q. All right. Ms. Discepolo, would you start by just  
11 giving the Commission an overview of the Company's  
12 request for permanent rate relief as filed in this  
13 docket.
- 14 A. (Discepolo) Yes. With respect to the Company's  
15 permanent rate request, on August 28th we filed the  
16 exhibits and testimony requesting a \$1,056,070 increase  
17 to revenues, which equates to a 21.08 percent increase.  
18 And, it results in a total revenue requirement of  
19 \$6,065,983.
- 20 Q. Now, as part of its initial filing, the Company also  
21 requested temporary rate relief. What was the level of  
22 that temporary rate relief?
- 23 A. (Discepolo) The Company had requested \$642,600 of  
24 increase in revenues, which equates to a 12.83 percent  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 increase, and represents approximately 61 percent of  
2 the permanent request.

3 Q. Okay. Could you summarize for the Commission what the  
4 reasons are that the Company is seeking a rate increase  
5 in this case?

6 A. (Discepolo) Yes. The Company is significantly under  
7 earning relative to its allowed rates of returns. If  
8 you look at the rates of returns as of March 31st, '08,  
9 which represents the test year, the Company earned a  
10 return on equity of 5.24 percent and a return on rate  
11 base of 6.07 percent. If you look at the returns based  
12 on the calendar year December 31st, 2007, which is --  
13 that represents the final statements filed with the PUC  
14 in their annual report, the return on equity was  
15 6.05 percent and the return on rate base was  
16 6.44 percent. Currently, as of November 30th, --

17 Q. I just want to be, excuse me, Ms. Discepolo, I just  
18 want to be clear. Those figures you gave are for what  
19 calendar year?

20 A. (Discepolo) December 31st, 2007.

21 Q. Okay. Thank you.

22 A. (Discepolo) I apologize. Currently, as of November  
23 30th, 2008, 12 months ended, our return on equity is  
24 2.39 percent and the return on rate base is

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 4.60 percent.

2 Q. How do those compare to the last allowed rates of  
3 return for the Company?

4 A. (Discepolo) The Company's 2006 rate decision, there  
5 were no specific return on equity and rate base numbers  
6 stipulated. So, going back to the return on equity in  
7 the Company's 2000 case, they were permitted to earn a  
8 return on equity of 9.5 percent and a return on rate  
9 base of 8.81 percent.

10 Q. And, how do they compare to the rates of return being  
11 sought in this case by the Company?

12 A. (Discepolo) In this case, the Company is requesting a  
13 return on equity of 10.23 percent and a return on rate  
14 base of 8.16 percent.

15 Q. Could you provide the Commission with an overview of  
16 the capital investment that the Company has added since  
17 its last rate increase?

18 A. (Discepolo) The Company has invested 5.6 million since  
19 its last rate case, primarily invested in water utility  
20 infrastructure and replacement of aging and under sized  
21 mains, services, meters, hydrants, and things of this  
22 nature. Along with, I should say, not only is it the  
23 capital investment, there is a depreciation component  
24 associated with this. So, there is increased

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 depreciation expense due to the 5.6 million of plant.

2 Q. Now, there was also a project related to Hampton Beach  
3 that the Company had authority to obtain a step  
4 increase for coming out of its last rate case. What's  
5 the status of that step increase? Was that  
6 implemented?

7 A. (Discepolo) The Company did not go forward with its  
8 step increase, and, in turn, is looking to get those  
9 investments, it's 1.68 million of the 5.6 million,  
10 reflected in this case.

11 Q. But what's the benefit to customers of the Company not  
12 having submitted for that step increase after the last  
13 rate case?

14 A. (Discepolo) The customers benefited through  
15 approximately \$400,000 decrease in revenue requirement.  
16 We didn't seek to get that. So, they benefited from us  
17 not reflecting in rates this 400,000 of revenues.

18 Q. Can you give the Commission an overall sense of the  
19 change in operating and maintenance expense that the  
20 Company has experienced since the time that Hampton  
21 Water Works was acquired first by Kelda and since then  
22 by Macquarie?

23 A. (Discepolo) Yes. Overall, O&M expenses or operating  
24 and maintenance expenses have increased 0.8 percent

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 since the Company's acquisition in the year 2000. We  
2 have tried to maintain and control operating expenses  
3 since the last case. But, certain expenses, such as  
4 wages, electric power, health and liability insurance,  
5 have increased since the last case.

6 Q. Okay. Earlier you referred to the level of temporary  
7 rates that the company was seeking when it filed this  
8 case. And, we indicated earlier that the Company has  
9 revised its request. Could you summarize the revised  
10 temporary rate request for the Commission?

11 A. (Discepolo) Correct. In the initial request, we had  
12 asked for a 12.83 percent increase for temporary rates.  
13 In our revised proposal, we're looking for a  
14 7.65 percent increase. That equates to \$383,262, and  
15 it constitutes approximately 36 percent of the  
16 permanent rate request.

17 Q. Can you explain to the Commission sort of just the  
18 basic parameters that you used to determine the data  
19 that would go into the revised request, as opposed to  
20 the original request?

21 A. (Discepolo) What the Company did was they used a 13  
22 month average of rate base. They used the last  
23 published return on equity of 9.5 percent in its cost  
24 of capital. It reflected the most current cost of

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 debt. Only the actual test year expenses were used.  
2 We did not pro forma any of the increases. And, we  
3 eliminated surcharge revenues that is non-recurring  
4 associated with rate case and surcharge implementation  
5 from the last case.

6 Q. What's the bill impact if the Company approved -- if  
7 the Commission approves the Company's revised request?

8 A. (Discepolo) Customers' bills would increase by  
9 approximately a 7.7 percent increase.

10 Q. Okay. Could you just summarize why, you've explained  
11 that the Company is under earning, but just explain why  
12 the Company is seeking an increase in rates for  
13 purposes of temporary rates, as opposed to, for  
14 example, just leaving the current level of rates in  
15 effect?

16 A. (Discepolo) From what I understand, there's a statute  
17 which would enable the Company to earn a reasonable  
18 return as the case is proceeding. And, also, temporary  
19 rates, by virtue of being allowed to institute that, it  
20 would enable -- well, it would avoid a significant  
21 surcharge increase once the case has actually been  
22 adjudicated.

23 Q. Now, although the Company is seeking an increase in  
24 rates on a temporary basis, could you summarize for the

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 Commission the effective date that the Commission --  
2 the Company is seeking on temporary rates and how you  
3 are requesting that that work?

4 A. (Discepolo) What we plan on doing is, effective  
5 December 15th, 2008, that would be the date that  
6 permanent rates would be retroactive to. But, given  
7 this proceeding, we assume that effective February 1st  
8 would be the implementation of the temporary rates.  
9 So, therefore, for the period from 12/15 to 1/31/09,  
10 temporary rates would really be what the existing rates  
11 are. There would be no increase. From the period  
12 February 1st, '09 through the end of the case,  
13 temporary rates would be in place. And, then,  
14 permanent rates would be adjudicated upon the  
15 Commission's decision, but it would be retroactive back  
16 to December 15th, 2008.

17 Q. I'm going to ask you to walk us through that maybe a  
18 little bit more slowly, because you referred to  
19 "temporary rates" twice. First of all, can you just  
20 explain why is the Company asking that temporary rates  
21 be made effective as of December 15th, and is it on a  
22 service rendered or bills rendered basis?

23 A. (Discepolo) The temporary rates is based on a service  
24 rendered basis. So, any revenues prior to

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 December 14th would be at the old rates; revenues or  
2 service after December 15th would be at the new rates,  
3 initially, at the temporary rate basis, and it would be  
4 adjudicated back -- well, actually, I said that  
5 improperly. On 12/15 would be where we would  
6 adjudicate permanent rates back to. Temporary rates  
7 would not begin until February 1st.

8 Q. Okay. I'll try it a different way.

9 A. (Discepolo) Sorry.

10 Q. Is the Company seeking temporary rates effective as of  
11 December 15, 2008?

12 A. (Discepolo) The temporary rates would go into effect  
13 February 1st.

14 Q. When you say "temporary" --

15 CHAIRMAN GETZ: I think we have a --

16 BY MR. CAMERINO:

17 Q. It's our terminology.

18 A. (Discepolo) Yes.

19 Q. I just want to get it -- make it clear. The  
20 reconciliation that will be done at the end of the case  
21 will relate back to what date?

22 A. (Discepolo) December 15th, 2008.

23 Q. Okay. And, the increase in rates, on a temporary  
24 basis, of the 7.65 percent, what date is the Company

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 proposing that that be implemented?

2 A. (Discepolo) It would be beginning February 1st.

3 Q. Okay. And, so, during the period that rates are  
4 reconcilable, from December 15, 2008 through February  
5 -- through January 31, 2009, rates would remain at  
6 their current level, and effective February 1, 2009,  
7 they would be increased by the 7.65 percent? Do I have  
8 that correct?

9 A. (Discepolo) Or 7.7 percent, correct.

10 Q. So, when the reconciliation is done, there will be two  
11 different periods of reconciliation. Is that a fair  
12 summary?

13 A. (Discepolo) That is correct.

14 Q. Okay. And, has -- well, I'll withdraw that. In its  
15 petition, the Company requested that the Commission  
16 waive PUC Regulation 1203.05, because it had proposed  
17 temporary rates on a bills rendered basis. Is the  
18 Company still seeking such a waiver?

19 A. (Discepolo) From what I understand, it would not be  
20 necessary, because we're going to base it on a services  
21 rendered basis.

22 Q. Okay. Lastly, I just want to -- I asked you whether  
23 you had any changes to your temporary rate testimony  
24 and whether that was prepared by you or under your

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 direction. I want to ask you the same question as to  
2 the revised temporary rate schedules that we marked as  
3 "Exhibit 2", the revised permanent rate pages that we  
4 marked as "Exhibit 4", and the Company's temporary rate  
5 proposal that we marked as "Exhibit 5". Were those all  
6 prepared by you or under your direction?

7 A. (Discepolo) Yes, they were.

8 Q. And, are they true and correct to the best of your  
9 knowledge and belief?

10 A. (Discepolo) Yes, they are.

11 Q. And, do you have any changes to them?

12 A. (Discepolo) No, I do not.

13 Q. Okay. I will not ask you that as to the permanent rate  
14 filing, since there's a lot of people's testimony in  
15 there.

16 MR. CAMERINO: Thank you. That  
17 concludes my direct.

18 CHAIRMAN GETZ: Thank you.  
19 Ms. Thunberg.

20 MS. THUNBERG: I just have one cross of  
21 Linda, before I move onto direct with Mr. Naylor.

22 CROSS-EXAMINATION

23 BY MS. THUNBERG:

24 Q. And, Linda, if you could just turn to Exhibit 5. It's  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 the Report of Proposed Rate Change for Temporary Rates.

2 A. (Discepolo) Okay.

3 Q. And, it shows the 7.65 overall increase, and then, by

4 customer group, you have the variation around

5 7. whatever. There's a "3.48". If you could just

6 explain what group that pertains to?

7 A. (Discepolo) We are not proposing to make any changes to

8 antenna rentals or miscellaneous charges, so that

9 category it would appear overall increase is

10 3.48 percent.

11 MS. THUNBERG: Okay. Thank you.

12 MARK A. NAYLOR, SWORN

13 DIRECT EXAMINATION

14 BY MS. THUNBERG:

15 Q. Mr. Naylor, if I could just have you state your name

16 and business address for the record.

17 A. (Naylor) My name is Mark Naylor. And, my business

18 address is the New Hampshire PUC, at 21 South Fruit

19 Street, in Concord, New Hampshire.

20 Q. And, you work for the Commission?

21 A. (Naylor) I do.

22 Q. And, can you please describe your responsibilities here

23 at the Commission?

24 A. (Naylor) I'm the Director of the Commission's Gas and

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 Water Division.

2 Q. And, could you please explain what you consider to be  
3 your area of expertise?

4 A. (Naylor) I'm an accountant. That's my education and  
5 background.

6 Q. Okay. And, is the work that you perform here within  
7 your area of expertise?

8 A. (Naylor) Yes.

9 Q. And, prior to today, have you testified before this  
10 Commission?

11 A. (Naylor) Yes, I have.

12 Q. And, has that testimony been within your area of  
13 expertise?

14 A. (Naylor) Yes.

15 Q. And, is the testimony you are providing today also  
16 within your area of expertise?

17 A. (Naylor) I certainly hope so.

18 Q. Can you please describe your involvement with this  
19 docket?

20 A. (Naylor) Yes. At this point, we've reviewed the  
21 Company's temporary rate request, and talked with them  
22 about the -- about the range of increases they were  
23 seeking, originally a larger increase, now we are  
24 considering a somewhat lesser increase. So, it's been

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1           pretty much just reviewing what they have requested for  
2           temporary rates and whether we think that's reasonable.

3   Q.    Can you please describe which documents or what the  
4           extent of documents you have reviewed for this docket?

5   A.    (Naylor) Reviewed the Company's filing for temporary  
6           rates, to some extent its filing for permanent rates,  
7           its most recent annual reports, as well as the Audit  
8           Staff's review of the Company's 2007 earnings.

9   Q.    And, has Staff come to an opinion as to whether  
10          Aquarion is presently under earning?

11  A.    (Naylor) Yes, we have.  And, we believe the Company is  
12          under earning.

13  Q.    Is that opinion based on the reports on file with the  
14          Commission?

15  A.    (Naylor) Yes, it is.

16  Q.    And, you've heard the testimony as to the proposed  
17          effective dates for reconciliation and for  
18          implementation of a new temporary rate, or the  
19          increase.  What is your opinion as to the just and  
20          reasonableness of the effective dates?

21  A.    (Naylor) We believe it's a reasonable -- reasonable  
22          approach.  Customers were notified of the proceeding  
23          prior to the effective date of temporary rates.  So, we  
24          believe it's reasonable.

{DW 08-098} (RE:  Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 Q. And, can you please give some or identify what some of  
2 the benefits are for a temporary rate increase?

3 A. (Naylor) Well, in this case, the Company's permanent  
4 rate request is approximately 21 percent overall. So,  
5 a temporary rate increase of this magnitude would help  
6 to phase in rates. Of course, we don't know if the  
7 21 percent will be the final number. But this is a  
8 little more than one-third of that amount, so it  
9 certainly minimizes rate shock. And, certainly, with  
10 an increase for temporary rates, it will help to  
11 minimize any recoupment amounts that may result from  
12 the conclusion of the proceeding.

13 Q. And, Mr. Naylor, are you familiar with the adjustment  
14 statute, RSA 378:29, and how it is applied?

15 A. (Naylor) Yes, I am.

16 Q. And, can you please explain how reconciliation will  
17 work with respect to temporary rates and once permanent  
18 rates are determined?

19 A. (Naylor) Once permanent rates are determined by the  
20 Commission, they will be reconciled back to the  
21 effective date of temporary rates, which would be  
22 December 15th, as just described a few moments ago.  
23 And, customers will either be refunded or will be asked  
24 to pay the difference in the temporary rates and

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 permanent rates.

2 Q. And, Mr. Naylor, with the December 15th, '08 and  
3 February 1, '09 effective dates, do you see any problem  
4 with Staff reviewing the reconciliation that the  
5 Company will ultimately provide at the end of this  
6 case?

7 A. (Naylor) No, I don't see a problem.

8 Q. And, do you believe that the temporary rate charges a  
9 customer will receive from the rate increase proposed  
10 today, do you believe that that is just and reasonable?

11 A. (Naylor) Yes, I do.

12 MS. THUNBERG: Thank you. Staff has no  
13 further questions.

14 CHAIRMAN GETZ: Thank you.

15 Mr. Gearreald?

16 MR. GEARREALD: I was just standing up  
17 to stack my papers. I don't want to go ahead of the  
18 Office of Consumer Advocate. They're next, I guess.

19 CHAIRMAN GETZ: Well, who would like to  
20 go next? Ms. Hollenberg?

21 MS. HOLLENBERG: It doesn't matter. I  
22 can go next, if you'd like.

23 CHAIRMAN GETZ: Okay.

24 MS. HOLLENBERG: Good morning.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 WITNESS DISCEPOLO: Good morning.

2 WITNESS NAYLOR: Good morning.

3 MS. HOLLENBERG: I just have a few  
4 questions.

5 CROSS-EXAMINATION

6 BY MS. HOLLENBERG:

7 Q. For Ms. Discepolo, you mentioned, you spoke on direct  
8 the specifics of the temporary rate increase, and I  
9 just want to clarify that this temporary rate increase  
10 would be across the board percentage-wise for all  
11 customer classes?

12 A. (Discepolo) Yes, it's approximately 7.7 percent across  
13 the board.

14 Q. And, do you have a sense of what the average increase  
15 would be for a residential customer?

16 A. (Discepolo) Just a second.

17 Q. Thank you.

18 A. (Discepolo) Currently, residential, 5/8ths inch  
19 residential customer, using 67,000 gallons of water,  
20 incurs a bill of \$397.99. With the revised temporary  
21 rates, the customer's annual bill would be \$428.77.

22 Q. Thank you. And, you spoke with Mr. Camerino about the  
23 effective dates. And, I just wanted to ask you to  
24 confirm that the effective date of 12/15, you have

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 mentioned that was on a service rendered basis, and the  
2 effective date of February 1, 2009 is also service  
3 rendered effective?

4 A. (Discepolo) Correct.

5 Q. Thank you. And, Mr. Naylor, you were asked on direct  
6 what you reviewed in coming to your opinion about the  
7 just and reasonableness of the proposed temporary  
8 rates. And, you were asked if "your opinion was based  
9 on the reports on file with the Commission?" What  
10 reports were you referring to?

11 A. (Naylor) The Company's rate filing, including its  
12 permanent rate filing and temporary rate filing; the  
13 Company's recent annual reports; and the Audit Staff's  
14 review of the Company's 2007 earnings.

15 Q. Did you review any responses to temporary data  
16 requests?

17 A. (Naylor) Yes, I did.

18 MS. HOLLENBERG: Excuse me a moment  
19 please.

20 (Atty. Hollenberg conferring with Mr.  
21 Traum and Mr. Eckberg.)

22 MS. HOLLENBERG: No other questions.

23 Thank you.

24 CHAIRMAN GETZ: Okay. Mr. Gearreald.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1                   MR. GEARREALD: Thank you. I have some  
2 exhibits that I handed to all parties and to the reporter.  
3 May I also hand these to the Commissioners and then  
4 reference them by number?

5                   CHAIRMAN GETZ: Please.

6                   MR. GEARREALD: Thank you.  
7 Mr. Chairman, may I first reference as Exhibit, the Town's  
8 Exhibit -- do we use numbers or letters?

9                   CHAIRMAN GETZ: We would be beginning  
10 with Exhibit 6 as our next marked exhibit.

11                   MR. GEARREALD: Okay. Town's Exhibit 6  
12 would be this Commission's order in the last rate increase  
13 case, DW 05-119, Order Number 24,648, dated July 18, 2006.  
14 That would be "Exhibit 6". The next one would be, as  
15 Exhibit 7, is the "Report of Proposed Rate Changes -  
16 Appendix A to the Settlement Agreement", that resulted  
17 from the July 18, 2006 order, and that would be  
18 "Exhibit 7". Exhibit 8 will be this Commission's order in  
19 case DW 06-094. This is the Order Number 24,691,  
20 October 31, 2006 order. That was this Commission's order  
21 approving the indirect acquisition of Aquarion Water  
22 Company of New Hampshire by Macquarie Utilities,  
23 Incorporated. Exhibit Number 9 is a press release, which  
24 is announcing, on November 21, 2008, that Larry Bingaman,

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 who is one of those -- the former Vice President of  
2 Operations for Aquarion Water of New Hampshire, whose  
3 affidavit appears in the permanent rate increase filing,  
4 as becoming, effective January 1, 2009, the new President  
5 and Chief Executive Officer of South Central Connecticut  
6 Regional Water Authority, the empty chair today. Exhibit  
7 Number 10 are the responses of Aquarion Water Company to  
8 Hampton's data requests, Set Number 1, and that would be  
9 "Exhibit 10". Received a hard copy yesterday, electronic  
10 copy Friday. And, as I understand it, Attorney Camerino  
11 has a correction to make to one of those responses, and  
12 I'll leave that to him for the moment.

13 MR. CAMERINO: Yes. Hampton 1-1, the  
14 very first response in that package, the second sentence  
15 says that the answer is "confidential". And, after this  
16 was submitted, we determined that Mr. Bingaman's  
17 compensation, because of his level within the Company, is  
18 not confidential. We can put that on the transcript. I  
19 would suggest that the hard copy of the exhibit actually  
20 have that line crossed out or it could cause confusion  
21 down the line.

22 CHAIRMAN GETZ: Okay. We'll mark for  
23 identification as "Exhibit 6" through "10" the exhibits as  
24 described by Mr. Gearreald.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 (The documents, as described, were  
2 herewith marked as Exhibit 6 through  
3 Exhibit 10, respectively, for  
4 identification.)

5 CHAIRMAN GETZ: And, I guess I would --  
6 I would suggest that we substitute a new page to  
7 Exhibit 10, showing the cross out with respect to the  
8 confidentiality of Mr. Bingaman's compensation.

9 MR. CAMERINO: Maybe what we could do  
10 is, since the package is a package, it seems to me the  
11 Company is going to have to submit a revised response to  
12 all the parties for their files anyway. And, if we  
13 reserve an exhibit number, we can submit that to the  
14 Commission at the same time.

15 CHAIRMAN GETZ: Okay. No objection to  
16 that?

17 MR. GEARREALD: No objection.

18 MS. HOLLENBERG: No objection.

19 CHAIRMAN GETZ: Okay. Then, we will  
20 hold Exhibit 11 for the amended version of the data  
21 responses filed with the parties on January 9, 2009.

22 (Exhibit 11 reserved)

23 MR. GEARREALD: Thank you. Ms.  
24 Discepolo.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 WITNESS DISCEPOLO: Yes.

2 MR. GEARREALD: Welcome back to New  
3 Hampshire.

4 WITNESS DISCEPOLO: Thank you.

5 BY MR. GEARREALD:

6 Q. Now, Ms. Discepolo, as I mentioned in response to  
7 direct examination, you are employed not by Aquarion  
8 Water Company of New Hampshire, but rather by Aquarion  
9 Water Company - Connecticut, is that correct?

10 A. (Discepolo) That is correct.

11 Q. And, you actually have been so employed with Aquarion  
12 Water Company - Connecticut, or its predecessor, I  
13 believe since 1979, is that correct?

14 A. (Discepolo) That is correct.

15 Q. Congratulations. You had mentioned that Aquarion Water  
16 Company - New Hampshire was acquired by Kelda  
17 Corporation in the year 2000. But is it not the case,  
18 ma'am, to refresh your memory from Mr. Bingaman's  
19 testimony in the permanent rate increase, that the  
20 actual year of acquisition was 2002? Does that refresh  
21 your memory? Would you like to see his testimony?

22 A. (Discepolo) No, I understand -- well, Kelda acquired  
23 the Company in 2000, I believe, yes.

24 Q. I draw the Commission's attention to Mr. Bingaman's  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 affidavit in that regard, where he gives some history.

2 And, I believe he uses the year "2002".

3 A. (Discepolo) That was the year that we acquired Aquarion  
4 Water Company of New Hampshire, the previous Hampton  
5 Water Works.

6 Q. "We" being whom?

7 A. (Discepolo) Aquarion Company. I wasn't referring to  
8 the parent, Kelda, I was talking about Aquarion  
9 Company, acquired those entities in 2002, correct.

10 Q. I see. Thank you. And, so, prior to the acquisition  
11 by Kelda Corporation, which was the predecessor owner  
12 from Britain, to the current owner, the Macquarie  
13 Group, through Macquarie Utilities, Inc., Hampton Water  
14 Company was a stand-alone type of operation, was it  
15 not?

16 A. (Discepolo) Yes, it was.

17 Q. And, as you have mentioned in --

18 MR. CAMERINO: Excuse me.

19 BY THE WITNESS:

20 A. (Discepolo) I say "stand-alone", but it was part of the  
21 American affiliates, American Water Company. It was a  
22 subsidiary of American Water Company.

23 BY MR. GEARREALD:

24 Q. Your testimony in the permanent rate increase filed,  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1           which I believe is "Exhibit 2", is that right, ma'am?

2                           MS. THUNBERG: Three.

3                           MR. CAMERINO: Three.

4                           MR. GEARREALD: Three, thank you.

5 BY MR. GEARREALD:

6 Q. Your testimony on Page 5 of the Exhibit 3 indicates  
7 that "full rate relief will allow the Company", meaning  
8 Aquarion Water - New Hampshire, "to operate on a  
9 stand-alone basis, internally generate sufficient funds  
10 that are necessary to maintain its utility plant, pay a  
11 reasonable return to its shareholder, and keep its  
12 borrowing needs at reasonable levels." Did I read that  
13 correctly?

14 A. (Discepolo) Yes, you did.

15 Q. Ma'am, you mentioned that an investment of  
16 approximately \$5.6 million in total capital  
17 improvements since the last rate increase, is that  
18 correct?

19 A. (Discepolo) Yes, the Company invested 5.6 million.

20 Q. Of that 5.6 million, that amount which is attributable  
21 to the Hampton Beach Infrastructure Project that you  
22 also mentioned is approximately 1.6 million of that,  
23 correct?

24 A. (Discepolo) Correct, 1.68.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

- 1 Q. Is that approximately 30 percent?
- 2 A. (Discepolo) Subject to check, I'll agree.
- 3 Q. Thank you. With regard to that 30 percent percentage,  
4 that does not include the recent work to the Hampton  
5 Water Tower, is that correct?
- 6 A. (Discepolo) No, it does not.
- 7 Q. The Mill Road Water Tower, I believe, --
- 8 A. (Discepolo) Correct.
- 9 Q. -- that's referred to in Mr. Bingaman's testimony?
- 10 A. (Discepolo) Yes, that's not reflected in the rates  
11 here, in the permanent rates requested. That was  
12 requested in the step increase.
- 13 Q. And, so, is the investment made in the Hampton Mill  
14 Road Water Tower included in the 5.6 million that you  
15 mentioned?
- 16 A. (Discepolo) No.
- 17 Q. Is not. Mr. Camerino mentioned that, on direct  
18 testimony through you, that Macquarie Utilities, Inc.  
19 had delayed in seeking to recover a step increase that  
20 was approved previously, is that correct?
- 21 A. (Discepolo) The Company opted to not go forward with  
22 its temporary -- they agreed not to go forward with  
23 that step increase, correct.
- 24 Q. Well, actually, that was not an agreement, as you are  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 talking today, like an agreement with Staff as to a  
2 temporary rate increase, that was actually a management  
3 decision, isn't that correct?

4 A. (Discepolo) It was. Due to the fact that we were in  
5 the process of being acquired, management determined  
6 that it would hold off for the step increase associated  
7 with that investment.

8 Q. And, that was a matter of public relations as much as  
9 anything, wasn't it?

10 A. (Discepolo) It was a management decision.

11 MR. GEARREALD: I'll refer the  
12 Commission in this regard to Mr. Larry Bingaman's  
13 testimony in Exhibit 3, the permanent rate file, his  
14 affidavit -- I'm sorry, his testimony, on Page 9,  
15 answering the question on Line 9, " Why did the Company  
16 delay implementing the step increase for the Hampton Beach  
17 Main Replacement Project in 2006?"

18 BY MR. GEARREALD:

19 Q. Ms. Discepolo, the step increase that was delayed,  
20 according to Mr. Bingaman's testimony, was directly  
21 related to the investment in the Hampton Beach  
22 Infrastructure Improvement Project, isn't that correct?

23 A. (Discepolo) That is correct.

24 Q. And, that particular rate increase, had it been sought

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 to be implemented, was approximately 4.85 percent,  
2 isn't that correct?

3 A. (Discepolo) That is correct.

4 MR. GEARREALD: That figure,  
5 Commissioners, appears in Mr. Bingaman's affidavit on Page  
6 7, beginning in response to the question on Line 16,  
7 "Please summarize the Company's request for rate relief  
8 that is the subject of this proceeding."

9 BY MR. GEARREALD:

10 Q. Ms. Discepolo, you have responded to Mr. Camerino's  
11 questions regarding your thoughts on the rate of return  
12 on investment and return on equity, is that correct?

13 A. (Discepolo) I've mentioned what our current rates of  
14 returns are, yes.

15 Q. And, you had also given an opinion on whether or not  
16 the current earnings in that regard, in your view, were  
17 fair or not, correct?

18 A. (Discepolo) I noted that the returns were lower than  
19 what was last allowed.

20 Q. Ah. Now, in terms of what was last allowed, there was  
21 not a specific order on what would be allowed either  
22 for rate of return, overall rate, or return on equity  
23 in the July 18, 2006 order that last approved permanent  
24 rates, was there?

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

- 1 A. (Discepolo) No, it was not stipulated.
- 2 Q. And, that would be Exhibit 6. Neither stipulated nor  
3 designated by the Commission, correct?
- 4 A. (Discepolo) Correct. It was a settlement.
- 5 Q. And, so, the comparison you're making to the current  
6 rate of return to what you're indicating was the  
7 allowed rate of return, in fact, goes all the way back  
8 to the prior rate decision in Order 23,412, issued in  
9 the year 2000, isn't that correct?
- 10 A. (Discepolo) That is correct.
- 11 Q. As mentioned in your testimony on the temporary rate  
12 increase, Exhibit 1, Steve, is it? Yes. On Page 2,  
13 Paragraph 3. So, it is the case, is it not, that prior  
14 to the last rate increase, before the one currently  
15 being sought, was implemented by order July 18, 2006,  
16 isn't that correct?
- 17 A. (Discepolo) That's the prior order, correct.
- 18 Q. Exhibit 6. And, as a result of that last rate increase  
19 two and a half years ago, proposed rate changes were  
20 implemented in accordance with the Settlement Agreement  
21 that I believe you may have had a hand in drawing up,  
22 isn't that correct?
- 23 A. (Discepolo) That looks familiar, yes.
- 24 Q. Exhibit 7. That rate increase, ma'am, actually  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 averaged at that time 18.64 percent, isn't that  
2 correct?

3 A. (Discepolo) That's correct.

4 Q. And, what is the full rate that the Company is seeking  
5 at this point in its permanent rate increase?

6 A. (Discepolo) We have requested a 21.08 percent increase.

7 Q. That's over and above the rate increase that was  
8 implemented in accordance with the 2006 order?

9 A. (Discepolo) Yes, it is.

10 Q. Are you aware, ma'am, that prior to the 2006 increase,  
11 the previous rate increase was, as I believe you've  
12 mentioned in discussing the rate of return that was  
13 allowed, was in the year 2000?

14 A. (Discepolo) Correct.

15 Q. Six years before that. In case number, I believe, and  
16 I'd ask the Commission to take judicial notice of its  
17 own records in this regard, case number DW 99-057. Are  
18 you aware, ma'am, that the rate increase I believe that  
19 was prior to that time went all the way back to 1992?

20 A. (Discepolo) I'll have to take your word for it, I'm not  
21 quite sure.

22 MR. GEARREALD: I would ask the  
23 Commission to take notice of the case DR 91-023,  
24 implementing an order in 1992.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1                   MR. CAMERINO: Could we, just the last  
2 two items that Mr. Gearreald asked that administrative  
3 notice be taken of, get a clarification whether  
4 Mr. Gearreald is just referring to the orders or the  
5 entire docket?

6                   MR. GEARREALD: I'm happy to have the  
7 Commission look at its docket. But I'm referring, in this  
8 case, to the timing of the rate increases and the span  
9 between them, versus --

10                  CHAIRMAN GETZ: Well, I take it you're  
11 asking us to take administrative notice of the final  
12 orders in these cases for the propositions that you've  
13 stated in the questions you've been asking the witness.  
14 And, we'll take administrative notice of the final orders  
15 in that regard.

16                  MR. GEARREALD: Yes, Mr. Chairman.  
17                                 (Administrative notice taken of the  
18                                 final orders in Dockets DW 99-057  
19                                 and DR 91-023.)

20                  MR. GEARREALD: Thank you very much.

21 BY MR. GEARREALD:

22 Q. Ms. Discepolo, the missing witness today, of course,  
23 who is also in the permanent -- has testimony in the  
24 permanent rate increase materials is Larry Bingaman,  
                  {DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

- 1 the former Vice President of Operations of Aquarion  
2 Water Company, both in Connecticut -- I'm sorry, both  
3 Massachusetts and New Hampshire, is that correct?
- 4 A. (Discepolo) That is correct.
- 5 Q. And, Mr. Bingaman, I believe I'm sure you're aware, has  
6 recently left for employment with a public entity, is  
7 that correct?
- 8 A. (Discepolo) Yes, he's employed by the Regional Water  
9 Authority.
- 10 Q. And, prior to his departure, Mr. Bingaman was  
11 essentially the head of overall operations for Aquarion  
12 Water Company - New Hampshire, is that right?
- 13 A. (Discepolo) That is correct.
- 14 Q. His position, as a separate position, has not been  
15 filled yet, isn't that correct?
- 16 A. (Discepolo) That is correct. The Company is actively  
17 looking for a replacement.
- 18 Q. Mr. Bingaman departed I believe effective January 1,  
19 2009, is that correct?
- 20 A. (Discepolo) Or December 31st, yes.
- 21 Q. I refer to Exhibit 9, this is the announcement of  
22 Mr. Bingaman's departure. How long, to your memory,  
23 had Mr. Bingaman been associated with Aquarion Water  
24 Company - New Hampshire, do you know?

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 A. (Discepolo) I'm not sure. I think six years, maybe  
2 longer.

3 Q. I believe you're right. And, that the various  
4 positions he's held going back, I believe, to 1990 are  
5 reflected in his testimony in Exhibit 3, on Page 2.

6 CHAIRMAN GETZ: Mr. Gearreald, you keep  
7 referring to Mr. Bingaman as "the missing witness here".  
8 I'm trying to understand where we're headed. Are you  
9 taking some kind of position that his testimony or his  
10 presence is necessary for us to make some kind of finding  
11 with respect to the proposal for an increase in temporary  
12 rates?

13 MR. GEARREALD: What I'm -- My position  
14 in this regard, Mr. Chairman, is that Mr. Bingaman's  
15 position was central to the operation of Aquarion Water  
16 Company - New Hampshire. My understanding, from the data  
17 request, is that his position is now being filled by  
18 others who already have duties with other affiliates of  
19 Aquarion Water - New Hampshire. And, it's unclear who  
20 will take his place. Efficiency of operations is  
21 something that has been critical to this Commission in  
22 allowing Macquarie to acquire Aquarion indirectly, and as  
23 reflected in this Commission's order in Exhibit 8. So  
24 that this is a period of uncertainty for Aquarion, in

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 terms both of its internal structure and its delivery of  
2 service, and, therefore, a period of uncertainty for  
3 ratepayers.

4 CHAIRMAN GETZ: And, you're making a  
5 link to the request for temporary rates based on that or  
6 is that an issue for permanent rates?

7 MR. GEARREALD: I believe it's an issue  
8 for both of them, Mr. Chairman. Because, as the statute  
9 indicates, in RSA 378:27, in fixing temporary rates, not  
10 only is "reasonable rate of return" taken into account,  
11 but also if "the public interest so requires". And, I  
12 believe the public interest here is not only with regard  
13 to the rate of increase, which is one of the prongs of our  
14 objection to the temporary rate being sought, but also to  
15 the instability at this point of the delivery of services  
16 due to Mr. Bingaman's departure. And, therefore, in  
17 ascribing a rate that will go into effect in the magnitude  
18 we're talking about, we ask the Commission to take that  
19 into account as well. That the person who had been in  
20 charge for many years --

21 CHAIRMAN GETZ: Okay. Well, I  
22 understand the argument. Mr. Camerino, do you have  
23 something?

24 MR. CAMERINO: Well, I guess I'm not

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 prepared quite yet to address the issue of relevance,  
2 although I absolutely don't see the relevance to temporary  
3 rates. But there was one statement by Mr. Gearreald which  
4 is incorrect and inconsistent with the exhibit that he  
5 submitted, and I think it was unintentional. There are  
6 plans, as the responses to data requests indicate, to fill  
7 Mr. Bingaman's position, and it is being filled currently  
8 on an interim basis by people who have other  
9 responsibilities with the Company. But the position is  
10 being filled. And, obviously, a position like that can't  
11 be filled instantaneously. So, I didn't want to leave the  
12 impression that the Company's plan is to have that  
13 position permanently occupied by somebody who's already  
14 with the Company and has other responsibilities.

15 CHAIRMAN GETZ: All right. Well, let's  
16 proceed with the cross-examination, then you'll both be  
17 given the opportunity for closing statements.

18 MR. GEARREALD: Okay.

19 BY MR. GEARREALD:

20 Q. With regard to who is filling Mr. Bingaman's duties at  
21 this point, are you familiar with the Company's  
22 responses to Hampton's data requests?

23 A. (Discepolo) Yes.

24 Q. One of the questions asked, and this is Hampton 1-8, in  
{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 Exhibit 10, "who is filling Mr. Bingaman's duties at  
2 this point?" And, the Company, although objecting,  
3 gave a response that, "In the interim, Howard Dunn  
4 would be filling most of Mr. Bingaman's former  
5 responsibilities." Mr. Dunn is identified as "Vice  
6 President for Operations" for the company you're  
7 affiliated with, Aquarion Water Company - Connecticut,  
8 is that right?

9 A. (Discepolo) That is correct.

10 Q. And, also, I see that he serves as "Vice President of  
11 Aquarion Water Company - New Hampshire". That seems to  
12 be the answer there I think Mr. Camerino was getting  
13 at, is that correct?

14 A. (Discepolo) Yes.

15 Q. Also, he's "being assisted by Mr. Jeffrey Farrell  
16 relevant with regard to the pending rate case", and  
17 "Mr. Farrell is the Director for Business Improvement  
18 for Aquarion Water Company - Connecticut", correct?

19 A. (Discepolo) That is correct.

20 Q. Aquarion Water Company - Connecticut is, of course,  
21 with whom you're employed, isn't that right?

22 A. (Discepolo) That is correct.

23 Q. And, both those individuals work with you down in  
24 Connecticut, isn't that right?

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

- 1 A. (Discepolo) That is correct.
- 2 Q. Mr. Bingaman was not a Vice President with Aquarion  
3 Water Company - Connecticut, is that right?
- 4 A. (Discepolo) That is correct.
- 5 Q. He was Vice President of Aquarion Water Company - New  
6 Hampshire and also Aquarion Water Company -  
7 Massachusetts, isn't that right?
- 8 A. (Discepolo) That is correct.
- 9 Q. And, Mr. Bingaman's salary, as has been responded to in  
10 Hampton Data Request 1-1, striking the confidentiality,  
11 was listed as "\$181,761", isn't that right?
- 12 A. (Discepolo) That is correct.
- 13 Q. Of which \$68,160 was allocated to Aquarion Water  
14 Company - New Hampshire, correct?
- 15 A. (Discepolo) That is correct.
- 16 Q. Turning now to Mr. Naylor. Mr. Naylor, you've  
17 indicated on direct examination that you have done some  
18 analysis of the data requests that had been received by  
19 the Commission Staff, isn't that correct?
- 20 A. (Naylor) I have reviewed them, yes.
- 21 Q. And, in those data requests, the Commission Staff was  
22 raising various questions about the data that was  
23 presented in its initial set of requests, isn't that  
24 correct?

{DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 A. (Naylor) To some extent, yes.

2 Q. And, in particular, focusing on the 13 month area, is  
3 that right?

4 A. (Naylor) That's correct.

5 Q. And, after the Commission Staff propounded those data  
6 requests, Aquarion responded not only with answers, but  
7 also with revisions to its original submission, isn't  
8 that correct?

9 A. (Naylor) That's correct.

10 Q. Mr. Naylor, in terms of the percentage being sought for  
11 a temporary rate increase, are we in the same position  
12 now that we were somewhat back in the 2006 rate  
13 increase, in that the Staff's position on agreeing to a  
14 temporary rate increase is essentially a gut reaction  
15 that this is a fair amount?

16 A. (Naylor) Well, I don't think I'd characterize it quite  
17 that way. The Company's permanent request is for a  
18 little over 21 percent. What they are requesting is  
19 just a little more than one-third of that amount.  
20 We've looked at their earnings level. We've looked at  
21 the level of their capital investments in recent years.  
22 And, believe that the request before the Commission now  
23 for these temporary rates is reasonable.

24 Q. Nevertheless, that opinion is not based on the kind of  
    {DW 08-098} (RE: Temporary Rates) {01-13-09}

[WITNESS PANEL: Discepolo|Naylor]

1 analysis of rate of return that, in scrutiny and audit,  
2 that will be conducted for purposes of the permanent  
3 rate increase?

4 A. (Naylor) That is true.

5 MR. GEARREALD: Thank you. That's all  
6 the questions I have.

7 CHAIRMAN GETZ: Okay. Any redirect,  
8 Ms. Thunberg or Mr. Camerino?

9 MS. THUNBERG: None for Staff.

10 MR. CAMERINO: No thank you.

11 CHAIRMAN GETZ: Okay. Any further  
12 questions for these witnesses?

13 (No verbal response)

14 CHAIRMAN GETZ: Hearing none, then  
15 you're excused. Thank you. And, I take it there's no  
16 further witnesses?

17 MS. HOLLENBERG: No thank you.

18 MR. GEARREALD: No, sir. Thank you.

19 CHAIRMAN GETZ: Are there any objections  
20 to striking the identifications and admitting the exhibits  
21 into evidence?

22 MS. HOLLENBERG: No.

23 MS. THUNBERG: No.

24 CHAIRMAN GETZ: Hearing no objections,

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1       they will be admitted into evidence. Is there anything  
2       further, before we provide an opportunity for closing  
3       statements?

4                               (No verbal response)

5                               CHAIRMAN GETZ: Hearing nothing, then  
6       we'll begin with you, Mr. Gearreald.

7                               MR. GEARREALD: Thank you, Mr. Chairman.  
8       This permanent and temporary rate increase comes on in a  
9       short time frame from a couple of orders that this  
10       Commission entered back in 2006. The first was DW 05-119,  
11       July 18, 2006, which implemented a Settlement Agreement of  
12       agreed upon rates averaging, as shown in Exhibit 7,  
13       18.64 percent. That had been the first rate increase that  
14       had been sought since the last order of the Commission in  
15       the year 2000, of which I've asked you to take judicial  
16       notice. And, in turn, that last 2000 order came after an  
17       order that occurred, as I understand it, back in 1992.  
18       So, the gap in time, in terms of rate increases being  
19       sought, has narrowed significantly, from eight years, to  
20       six years, and now to three years. It also comes on the  
21       heels of the acquisition by Macquarie Group, indirect  
22       acquisition, that is -- whose history is set forth by the  
23       Commission in the order dated October 31, 2006, which is  
24       Exhibit 8.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1                   The Commission was concerned in that  
2                   order with several things. One was "What kind of service  
3                   will be delivered under the new ownership? What will the  
4                   local office look like? What will the local operation  
5                   look like?" Also at that time, the Commission needed to  
6                   satisfy itself, in order to approve that acquisition, as  
7                   to whether this acquisition would be in the public  
8                   interest. And, on Page 11 of the order, the Commission  
9                   had evaluated the comments received from the public at a  
10                  September 11, 2006 public hearing, similar to the one that  
11                  the Commission will be holding in March of this year in  
12                  Hampton. And, some of the comments indicated skepticism  
13                  that the merger would not raise rates. And, I would  
14                  suggest to you that the skepticism was well founded, for  
15                  now we are facing a rate increase request of 21 percent,  
16                  on top of the 18.6 percent that was approved by the  
17                  Commission in a settlement agreement back in 2006. It's a  
18                  bit much.

19                         It also, I believe, reflects items  
20                         outside of -- outside of Hampton, in the sense that the  
21                         new owner of Aquarion is the Macquarie Group, an  
22                         Australian bank. And, I think the Commission can take  
23                         notice of the economies worldwide of what has happened to  
24                         banks and their investments. And, so, I would suggest to

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 the Commission that the large rate increase permanently  
2 being sought is as much a function of the various  
3 investments that are made worldwide in utilities by  
4 Macquarie, as they are by the local operation in Hampton.

5 And, again, as taxpayers in the United  
6 States are being asked to bail out the problems of auto  
7 makers, I think there is some analogy here to the  
8 ratepayers of Hampton, who are the property taxpayers, and  
9 Hampton is 76 percent of those ratepayers, are being asked  
10 to assist the Macquarie Group in this economy. And, it  
11 does get to be a bit much.

12 We do not oppose, and I have so  
13 indicated to Mr. Camerino before, the implementation now  
14 of the step increase of 4.85 percent as the temporary  
15 rate. This is a rate that has been documented, been fully  
16 documented before with this Commission. It had been  
17 approved as a potential step increase in the July 18, 2006  
18 order. And, we would be fine with that. We're also fine  
19 with, if that were the number, with the increase being  
20 implemented, the temporary rate increase, in accordance  
21 with the staggered schedule that Ms. Discepolo and  
22 Mr. Camerino I think ultimately successfully outlined to  
23 you, whereby a zero increase would occur from February --  
24 from December 15 to February 1, and then whatever increase

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 is approved by the Commission goes into effect February 1.  
2 However, when the permanent rate increase is approved,  
3 there would be a back recovery through December 15th. As  
4 long as the temporary rate is the lower figure of  
5 4.85 percent, we do not object to that staggering,  
6 especially because it reflects services rendered, rather  
7 than bills rendered. And, the Office of Consumer Advocate  
8 took great pains to make sure that that was the way that  
9 was going to be.

10 So, there is some uncertainty here also  
11 with respect to Mr. Bingaman, who is the face of Aquarion  
12 in Hampton for many years. Mr. Bingaman would come to New  
13 Hampshire frequently, was very hands-on, in terms of his  
14 approach. And, now, he is gone, and his place is being  
15 taken, at least temporarily, by those who are located down  
16 in Connecticut, whether they're affiliated on paper or not  
17 with Aquarion Water - New Hampshire. So, this is a period  
18 of uncertainty not just in the economy for our taxpayers  
19 in Hampton, but also for our ratepayers in Hampton to this  
20 utility, who are uncertain as to how the operation will  
21 proceed from here. Will the individual that is  
22 necessarily brought in from the outside, if that is true,  
23 get compensation in the range Mr. Bingaman was paid? Will  
24 he be working out of an office in Massachusetts or

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 attempting to do that through an office down in  
2 Connecticut?

3 Again, it feeds into the uncertainty  
4 that we submit is adequate reason for the Commission not  
5 to approve the 7.7 percent increase, but instead to  
6 approve the 4.85 increase that had already, as a  
7 certainty, been submitted back in 2006.

8 So, I appreciate your hearing me out on  
9 this. And, thank you.

10 CHAIRMAN GETZ: Thank you.  
11 Ms. Hollenberg.

12 MS. HOLLENBERG: Thank you. The Office  
13 of Consumer Advocate is pleased with the Company's  
14 willingness, excuse me, to modify its temporary rate  
15 increase, not only the percentage amount increase, but  
16 also the effective date and how that was implemented. We  
17 did have concerns about the original filing. And, we were  
18 concerned that all customers be treated equally. And, we  
19 believe that the service rendered effective date and the  
20 mechanism that's proposed accomplishes that or addresses  
21 that concern. We do not oppose the percentage amount  
22 increase. And, we are looking forward to working with the  
23 Company to investigate the permanent rate filing. Thank  
24 you.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 CHAIRMAN GETZ: Thank you.

2 Ms. Thunberg.

3 MS. THUNBERG: Thank you, Commissioners,  
4 for your time today. Staff does recommend the Commission  
5 grant Aquarion Company's temporary rate request. The  
6 Staff has reviewed the reports on file with the Commission  
7 and believes that the Company is under earning.  
8 Consistent with RSA 378:27, upon a demonstration that the  
9 Company is under earning, the Commission can grant a  
10 increase to allow the Company a reasonable rate of return  
11 during its investigation of this docket. And, Staff  
12 believes that that threshold has been met.

13 Staff further believes that the  
14 temporary rate increase will be in the public interest,  
15 because it will mitigate the Company's under earning  
16 status. And, in the event permanent rates are higher than  
17 temporary rates, it will lower the recoupment.

18 And, lastly, with respect to the issues  
19 that Hampton has raised, Staff looks forward to working  
20 with the Company and other intervenors on those issues  
21 during the permanent rate phase of this docket. Thank  
22 you.

23 CHAIRMAN GETZ: Thank you.

24 Mr. Camerino.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1                   MR. CAMERINO: Thank you, Mr. Chairman.  
2           As was noted during the testimony, the Company is seeking  
3           a permanent rate increase of 21.08 percent, which I think  
4           the Commission is aware from other water company rate  
5           cases in recent years, while it is a substantial number in  
6           the water industry, it is not a large increase at all. A  
7           lot of the reason for that increase is the fact that water  
8           companies have a significant need to replace aging  
9           infrastructure, and the replacement facilities are far  
10          more expensive than the rate base that they are replacing,  
11          and that has a significant upward pressure on rates.

12                   In this case, the Company, in the spirit  
13          of compromise, is proposing a temporary rate increase of  
14          7.65 percent, which is just over 30 percent or just over a  
15          third of its permanent rate increase. And, as  
16          Mr. Gearreald himself noted, the Company, in the prior  
17          order, was authorized for an increase of 4.85 percent as a  
18          step increase, subject to review of the expenditures for  
19          the Hampton Beach Improvement Project. And, so, the  
20          differential we're talking about in this case is between  
21          that 4.85, which conceptually had been approved, the  
22          actual increase needed to be reviewed still for  
23          expenditures, versus the 7.65. So, if the Commission just  
24          assumes any additional capital expenditures at all since

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1       that last rate case, you very quickly get to the 7.65 and  
2       beyond.

3                       We appreciate that Hampton has indicated  
4       its support for temporary rates in concept and at that  
5       lower level. But the Company does need to earn at some  
6       reasonable level in the interim while the case is pending.  
7       And, more important we think, we do not want to have an  
8       overly large surcharge at the end of the case, if the  
9       Company's request for permanent rates is approved. We'd  
10      like to try to minimize the amount of that surcharge.  
11      And, that's why the Company is not requesting a lower  
12      level of temporary rates.

13                      With regard to Mr. Bingaman, I'm not  
14      really quite sure what to say, other than people make  
15      career decisions and move on, the Company was very  
16      disappointed to have him leave, and is moving  
17      expeditiously to fill his position. Those things happen,  
18      and a position like that can't be filled overnight, if  
19      you're trying to get somebody who is appropriate for it.

20                      Mr. Gearreald made a lot of statements  
21      about the Macquarie acquisition and what has happened  
22      since then. There's no evidence in the record to support  
23      that. And, in fact, we believe that, when we have the  
24      permanent rate hearing, the evidence will be to the

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 contrary. That the Macquarie acquisition has led to a  
2 reduction in cost, not an increase. So, there are no  
3 merger costs that are in this rate request.

4 Similarly, his reference to losses at  
5 the Macquarie Bank level, first of all, I have no idea  
6 whether what he said is even correct. But, even if it  
7 were, there is no bank involved in this company. There is  
8 a company called "Macquarie Utilities, Inc.", this was all  
9 in the merger docket, that is owned by investment funds,  
10 primarily pension funds, and that is the parent of this --  
11 that is the owner of this company. Whatever happened at  
12 the bank level or in Australia has no relevance in this  
13 case, and there is no evidence in this case about that.  
14 So, it has no bearing on temporary rates.

15 This case was filed in August. The  
16 Company needs temporary rate relief. That actually is --  
17 the fact that it's been so long since the filing has a lot  
18 to do with why there was a discussion previously, and the  
19 agreement you've heard here, as to the effective date on a  
20 service rendered basis back to December 15th. In an  
21 effort not to be surcharging customers right now on a  
22 temporary rate basis, we've agreed that the current rates  
23 would remain in effect, but they would become effectively  
24 temporary rates, with service rendered as of December 15,

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1 2008, and then the actual rate on the bill would be  
2 increased by the proposed 7.65 percent with service  
3 rendered effective February 1 of 2009. And, when the  
4 Commission renders its final decision in the case, that  
5 would be reconciled back to the December 15th, 2008 date.

6 The Company has submitted, in its  
7 permanent case, a number of proposals related to  
8 conservation rates and other things that would affect rate  
9 design. None of those are being proposed for  
10 implementation on a temporary rate basis. The temporary  
11 rates that are ordered by the Commission would be put in  
12 place proportionately across the board, and any rate  
13 design changes would be implemented at the time of  
14 permanent rates.

15 The Company believes that statutorily  
16 and as a matter of the public interest it is entitled to  
17 temporary rate relief in this case, and thinks that its  
18 proposal is extremely reasonable. It has tried to  
19 compromise. I think even the difference with the Town of  
20 Hampton is relatively small. And, if the Commission  
21 simply considers that, since the last rate case, there has  
22 obviously been substantial additional capital investment,  
23 I think you will see that the 7.65 percent average  
24 increase is reasonable. Thank you.

{DW 08-098} (RE: Temporary Rates) {01-13-09}

1                           CHAIRMAN GETZ: Thank you. Okay. Thank  
2 you, everyone. We will now close this hearing and take  
3 the matter under advisement.

4                           (Whereupon the hearing ended at 11:17  
5 a.m.)

6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

