

1 STATE OF NEW HAMPSHIRE  
2 PUBLIC UTILITIES COMMISSION  
3

4 July 14, 2009 - 10:16 a.m.  
5 Concord, New Hampshire  
6

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

10 PRESENT: Chairman Thomas B. Getz, Presiding  
11 Commissioner Clifton C. Below

12 Sandy Deno, Clerk

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

15 Reptg. the Town of North Hampton, N.H.:  
John J. Ratigan, Esq. (Donahue, Tucker...)

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

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

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

22  
23 Court Reporter: Steven E. Patnaude, LCR No. 52  
24

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WITNESS: LINDA M. DISCEPOLO

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12

Direct Pre-filed Testimony of  
James L. Lenihan

premarked

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Direct Pre-filed Testimony of  
James J. Cunningham, Jr.

premarked

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Direct Pre-filed Testimony of  
Mark A. Naylor

premarked

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Direct Pre-filed Joint Testimony  
of Kenneth E. Traum and  
Stephen R. Eckberg

premarked

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Direct Pre-filed Joint Testimony  
of George E. Sansoucy and  
Glenn C. Walker

premarked

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Direct Pre-filed Testimony of  
Frederick W. Welch

premarked

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Settlement Agreement on  
Permanent Rates, with attachments

premarked

15

19

Aquarion Response to Tech  
Session Data Request 2-5

premarked

16

17

20

Bill Impacts for a 5/8"  
Metered Residential Customer  
Using 67,000 Gallons Per Year

Premarked

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

2 CHAIRMAN GETZ: Okay. Good morning,  
3 everyone. We'll open the hearing in docket DW 08-098. On  
4 August 29, 2008, Aquarion Water Company filed petitions  
5 for permanent rates and temporary rates. An order  
6 suspending tariffs and scheduling a prehearing conference  
7 was issued on September 25, 2008. And, after a prehearing  
8 conference on November 5th, a procedural schedule was  
9 issued, setting out procedures for temporary rates and  
10 consideration of permanent rates. An order on temporary  
11 rates was issued on February 13. The procedural schedule  
12 provided for a hearing on the merits beginning today.  
13 And, we have filed, as of July 10, a proposed Settlement  
14 Agreement among Aquarion, the Consumer Advocate, Staff,  
15 and the Towns of Hampton and North Hampton.

16 Can we take appearances please.

17 MR. CAMERINO: Good morning. Steve  
18 Camerino, from McLane, Graf, Raulerson & Middleton, on  
19 behalf of Aquarion Water Company of New Hampshire.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. BELOW: Good morning.

22 CHAIRMAN GETZ: Other appearances?

23 MR. RATIGAN: John Ratigan, from  
24 Donahue, Tucker & Ciandella, representing the Town of

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1 North Hampton.

2 CHAIRMAN GETZ: Good morning.

3 CMSR. BELOW: Good morning.

4 MR. GEARREALD: Good morning. Mark  
5 Gearreald, representing the Town of Hampton.

6 CHAIRMAN GETZ: Good morning.

7 CMSR. BELOW: Good morning.

8 MS. HOLLENBERG: Good morning. Rorie  
9 Hollenberg, here on behalf of the OCA. And, with me today  
10 are Stephen Eckberg and Kenneth Traum.

11 CHAIRMAN GETZ: Good morning.

12 CMSR. BELOW: Good morning.

13 MS. THUNBERG: Good morning,  
14 Commissioners. Marcia Thunberg, on behalf of Staff. With  
15 me today is Mark Naylor, Jim Lenihan, Jayson LaFlamme, and  
16 Doug Brogan. And, when it is our turn, we will be having  
17 Mark Naylor presenting part of the Settlement Agreement.  
18 Thank you.

19 CHAIRMAN GETZ: Good morning.

20 CMSR. BELOW: Good morning.

21 CHAIRMAN GETZ: Mr. Camerino, would you  
22 like to lead off?

23 MR. CAMERINO: Thank you. Let me first  
24 just -- well, actually, let me call Ms. Discepolo to the

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1 stand. And, while she's getting up there, I'll cover a  
2 couple of procedural matters.

3 First, Mr. Chairman, the parties have  
4 identified a number of exhibits that we're going to  
5 introduce today. And, I thought, if it was appropriate, I  
6 would just read them into the record to identify them now?

7 CHAIRMAN GETZ: Please.

8 MR. CAMERINO: Exhibit 12, and we're  
9 picking up where we left off after the temporary rate  
10 hearing, Exhibit 12 will be the Direct Pre-filed Testimony  
11 of James L. Lenihan; Exhibit 13, the Direct Pre-filed  
12 Testimony of James J. Cunningham, Jr.; Exhibit 14 will be  
13 the Direct Pre-filed Testimony of Mark A. Naylor; Exhibit  
14 15 will be the Direct Pre-filed Joint Testimony of Kenneth  
15 E. Traum and Stephen R. Eckberg; Exhibit 16 will be the  
16 Pre-filed Joint Testimony of George E. Sansoucy and Glenn  
17 C. Walker, has a certain ring to it; Exhibit 17 is the  
18 Pre-filed Direct Testimony of Frederick K. [W.?] Welch;  
19 Exhibit 18 is the Settlement Agreement on Permanent Rates  
20 and the attachments; Exhibit 19 is Aquarion's response to  
21 Tech Session Data Request 2-5; and Exhibit 20 is a summary  
22 of bill impacts for a five-eighths inch metered  
23 residential customer using 67,000 gallons per year.

24 The documents, Exhibits 12 through 17,

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1       were all submitted previously on the appropriate filing  
2       dates, so they were not redistributed today. And, Exhibit  
3       18 is the Settlement that came in on Friday. So, you  
4       should have Exhibits 19 and 20 in front of you.

5                       And, then, I would also note, by  
6       agreement of the parties, most of the witnesses who  
7       prefiled testimony are not going to be testifying today  
8       and will not be subject to cross-examination. And, so,  
9       while the testimony could be used as an admission against  
10      the party submitting it, that other parties to the case  
11      are not intending to admit the truth or correctness of any  
12      of the statements in the other parties' testimonies.

13                      CHAIRMAN GETZ: Okay.

14                      MR. CAMERINO: May I proceed? She's  
15      sworn?

16                      MR. PATNAUDE: No, I've got to swear her  
17      in.

18                      (Whereupon Linda M. Discepolo was duly  
19                      sworn and cautioned by the Court  
20                      Reporter.)

21                      LINDA M. DISCEPOLO, SWORN

22                      DIRECT EXAMINATION

23      BY MR. CAMERINO:

24      Q.   Ms. Discepolo, would you just state your name and

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[WITNESS: Discepolo]

1 business address for the record please.

2 A. Yes. My name is Linda Discepolo. And, I work at 600  
3 Lindley Street, in Bridgeport, Connecticut.

4 Q. And, what is your position with Aquarion and your  
5 responsibilities in that regard?

6 A. I am the Director of Rates and Regulation. And, I'm  
7 responsible for the financial regulatory matters of  
8 Aquarion's three water utilities.

9 Q. And, since you are here today testifying, I want to  
10 just ask you briefly about your prefiled testimony.  
11 That was included as Exhibit 3, which was -- as part of  
12 Exhibit 3, which was the permanent rate filing  
13 submitted at the temporary rate proceeding. Is that  
14 testimony true and correct to the best of your  
15 knowledge and belief?

16 A. Yes, it is.

17 Q. And, was it prepared by you or under your direction?

18 A. Yes, it was.

19 Q. Thank you. And, with regard to the Settlement that was  
20 marked as "Exhibit 18" for identification, were you the  
21 Company's representative in negotiating that  
22 Settlement?

23 A. Yes, I was.

24 Q. And, you're familiar with its terms and conditions?

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[WITNESS: Discepolo]

1 A. Yes, I am.

2 Q. I'd like to ask you to summarize that agreement for the  
3 Commission.

4 A. Certainly. With respect to the base increase to  
5 permanent rates, Schedule A of the -- it's an  
6 attachment to the Settlement Agreement provides some of  
7 the details with respect to the base increase.  
8 Contained within those exhibits, you'll see that the  
9 revenue requirement for the Settlement Agreement is  
10 proposed at \$5,833,758 [\$5,883,758?]. The revenue  
11 deficiency or rate increase is \$873,844, which  
12 represents a 17.44 percent increase over the test year  
13 operating revenues of \$5,009,914. Proforma rate base  
14 equated to \$19,599,850. Operating expenses total  
15 \$2,577,137. Also included in the Settlement Agreement  
16 is a weighted average cost of capital of 7.72 percent,  
17 which is comprised of a cost of equity of 9.75 percent,  
18 an overall cost of debt of 6.26 percent, and  
19 capitalization is comprised of 58.2 percent debt and  
20 41.8 percent equity.

21 Also included in the Settlement  
22 Agreement and filed within the case was a request for a  
23 step adjustment. And, in the Settlement Agreement, the  
24 step adjustment was for the construction of the Mill

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[WITNESS: Discepolo]

1 Road tank. This tank was originally constructed in  
2 1914, and it has run its useful life. And, therefore,  
3 we request a step adjustment, because it's outside of  
4 the test year. It was placed in service in 2008. And,  
5 the reason why we really needed the step adjustment is  
6 this is a significant investment for the Company. It  
7 equates to 7.9 percent of rate base. And, therefore,  
8 we required this step adjustment. And, it increases  
9 revenues by \$210,854, and it recovers rate base of  
10 \$1,549,974. And, the reason why we did need this step  
11 adjustment, it is post test year, it is significant,  
12 and I guess you'll see later on when we get on with the  
13 testimony, it somewhat is -- it's similar to a WICA,  
14 because it's a significant investment, it's subsequent  
15 to the test year, and I know we'll be discussing that a  
16 little bit later.

17 Q. Ms. Discepolo, let me just ask you a couple of  
18 clarifying questions on that.

19 A. Uh-huh.

20 Q. The plant addition that's the subject of this step  
21 adjustment, is it revenue producing?

22 A. Oh, it's non-revenue producing.

23 Q. And, is the plant currently in service?

24 A. It is currently in service.

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[WITNESS: Discepolo]

1 Q. Thank you.

2 A. As Exhibit 20, I think that was distributed, we show,  
3 when you take into consideration both the step increase  
4 and the base increase, you'll see the bill impact for  
5 the typical residential customer for New Hampshire,  
6 using 67,000 gallons, and this is the five-eighths inch  
7 meter customer, today, their rates are \$397.91. And,  
8 after the step increase and the base increase, their  
9 rates would be \$486.90 per year, for both phases, both  
10 adjustments would result in a 22.4 percent increase  
11 from base rates.

12 Q. Let me, before you move on, I want to just ask you one  
13 clarifying thing. When you were reading or stating the  
14 various financial figures, you gave a overall revenue  
15 requirement, and I think you said "\$5,833,758".

16 A. Oh.

17 Q. And, I just want to see if you have a correction there?

18 A. It's "\$5,883,758". And, I apologize.

19 Q. Why don't you continue on with additional aspects of  
20 the Settlement.

21 A. Certainly. The Company initially did not propose any  
22 adjustment to connection fees. But, as a result of the  
23 case, and as we went through discovery, it was  
24 determined that connection fees should be increased,

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[WITNESS: Discepolo]

1 based on actual costs. And, I believe Exhibit 19 will  
2 show you the calculation on how the new connection fee  
3 was derived. It increases from a current fee of \$15,  
4 up to \$44. We rounded it for purposes of the tariff.

5 Q. And, what's the effect? Does the Company get more  
6 total revenues by increasing that connection fee or  
7 what happens to the Company's rate proposal when that  
8 adjustment is made?

9 A. The total increase in revenues associated with this  
10 connection fee is \$26,709. And, what it's going to do  
11 is offset the fire service rate. So, we'll be getting  
12 in new dollars, however it will be used to offset the  
13 cost associated with fire service.

14 Q. So, increasing this connection charge doesn't increase  
15 the Company's overall revenues?

16 A. No, it does not.

17 Q. Why don't you move onto rate design.

18 A. As part of the case, the Company had initially proposed  
19 and introduced inclining block rates. However, as the  
20 case went on and we were negotiating, we decided to  
21 delete the inclining blocks from our proposal. One of  
22 the reasons intervenors requested that we not continue  
23 with inclining blocks is the fact that we do not have  
24 monthly billing. What we are currently doing is we are

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[WITNESS: Discepolo]

1 in the process of automating our meters, and we are  
2 approximately 60 percent done. And, what we've tried  
3 to do is pick the least costly method of replacing  
4 these meters and doing it at the periodic changeout  
5 time. So, therefore, it's going to take us a little  
6 bit longer, but it's at least more cost-effective than  
7 if we just went premises to premises, in any event,  
8 doing the periodic meter change. So, we elected to  
9 remove the inclining block proposal from the initial  
10 case, from the Settlement Agreement.

11 With respect to fire protection, we  
12 basically followed the cost of service, except we did  
13 make a little compromise with respect to fire charges.  
14 And, we -- the Town had proposed an argument and  
15 negotiated to reduce the fees slightly, and, therefore,  
16 in the light of negotiation, we agreed to a slightly  
17 lower fee for the fire charges. So, public fire  
18 protection will see, in the base case, a 99 -- or, a  
19 9.99 percent increase, versus the 17.44 overall  
20 percentage increase.

21 Q. What about with regard to the effective date of the new  
22 rates, recoupment of temporary rate surcharge, and any  
23 rate case expense, how will those be treated?

24 A. The recoupment and the rate case expense, there will be

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1 two different surcharges shown separately on  
2 individuals' bills subsequent to the rate case. We'll  
3 come in, we'll provide workpapers delineating what the  
4 recoupment amount should be, along with what the rate  
5 case expenses are, and implement them as two different  
6 surcharges on the individual customers' bills. The  
7 recoupment will date back to December 15th, 2008, as  
8 stipulated in the temporary rate agreement.

9 MR. CAMERINO: Okay. Could we just go  
10 off the record for one minute? I just need to clarify one  
11 thing with the other parties.

12 CHAIRMAN GETZ: Please.

13 MR. CAMERINO: Thanks.

14 (Off the record.)

15 MR. CAMERINO: I apologize, Mr.

16 Chairman.

17 BY MR. CAMERINO:

18 Q. Ms. Discepolo, I just want to draw your attention to  
19 Section -- Page 4 of the Settlement. And, if you look  
20 at the first sentence, it says that the rate case  
21 expenses will be recovered through a surcharge "which  
22 shall be included with the temporary rate  
23 reconciliation surcharge", "shall be included". And,  
24 just to be clear, your testimony is that there will be

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[WITNESS: Discepolo]

1 two separate charges, one for the temporary rates and  
2 one for the rate expense, is that correct?

3 A. That is correct.

4 Q. Okay. Thank you. And, so, to the extent that the  
5 Settlement is different or unclear, it's your intention  
6 that your testimony would be how this would be  
7 implemented?

8 A. Yes, that's correct.

9 CHAIRMAN GETZ: Mr. Camerino, where are  
10 you reading from? You said "the first sentence"?

11 MR. CAMERINO: It's the Section G on  
12 Page 4 of the Settlement. And, I apologize, because I  
13 wasn't clear where the quotes in my statement began. If  
14 you look at the second line, after the comma it says  
15 "which shall be included with the temporary rate  
16 reconciliation surcharge". And, I think normally you  
17 would read that to mean that there would be one charge  
18 that would lump together the temporary rates and the rate  
19 case expense. And, in fact, Ms. Discepolo is testifying  
20 they will be shown separately.

21 CHAIRMAN GETZ: Thank you.

22 BY MR. CAMERINO:

23 Q. And, so, Ms. Discepolo, to the extent that your  
24 testimony differs from the Settlement, it's your

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[WITNESS: Discepolo]

1 intention to implement it in the way you've just  
2 described?

3 A. Yes.

4 Q. Okay. Thank you. All right. Anything further on the  
5 rate case expense or temporary rate surcharge? I  
6 interrupted you in the middle of that.

7 A. I just thought I'd like to point out, with respect to  
8 the temporary rates, currently, the overall rate in  
9 effect for the temporary rates is 7.65, which will  
10 somewhat mitigate the rates that the customer is  
11 currently billed, when we ultimately increase it to the  
12 22.4 percent.

13 Q. Okay. I'd like you to walk the Commission through in  
14 more detail the proposal with regard to what you called  
15 the "WICA", and explain what the proposal is in that  
16 regard?

17 A. Okay. The "WICA" stands for "Water Infrastructure and  
18 Conservation Adjustment". And, what the Company  
19 proposes to do is implement a tariff for a WICA,  
20 whereby, and I think it's delineated in Section II,  
21 Item H of the Settlement Agreement, and it's also  
22 supplemented in Attachment C. And, what the WICA, the  
23 proposed WICA would do would be to recoup significant  
24 ongoing replacement of aging infrastructure. There are

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[WITNESS: Discepolo]

1       only a select type of assets that would be eligible for  
2       WICA, one of them being, and they are all non-revenue  
3       producing assets, one of them would be replacement in  
4       kind of the same size of meters and hydrants and  
5       services, replacement of existing mains and valves that  
6       have reached the end of their useful life, main  
7       cleaning and relining projects and relocations that are  
8       not reimbursable, replacement of production meters, and  
9       replacement of pressure-reducing valves. And, the  
10      reason why we're proposing a WICA is because we have  
11      significant infrastructure to be replaced. And, at the  
12      same time, the Company is consistently significantly  
13      under-earning on its return. And, this is one way to  
14      encourage the Company to continue with its replacement  
15      of aging infrastructure, which, in the water industry,  
16      is becoming a very popular and significant issue.  
17      We've been working towards WICA, I think because we've  
18      come in for a step increase subsequent to the rate  
19      increase to capture large projects, where the WICA will  
20      assist with aging infrastructure and get that replaced.

21               Although we understand there are  
22      limitations with respect to regulations, and we have to  
23      follow the rules for the historical test year, Staff  
24      and intervenors and OCA have been working with us to

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1 find a constructive way to assist in recovering the  
2 costs associated with these needed infrastructure  
3 replacement projects. All these things being equal,  
4 if, in fact, we were to implement a WICA, we would  
5 probably be in for rate cases -- we could extend the  
6 time for which we would actually come in. However, we  
7 do know there are economic conditions in other projects  
8 which would require us to come in at different  
9 intervals. But we feel that this is a great  
10 opportunity for both the customer, in that they get the  
11 replacement of aging infrastructure and reliability of  
12 service, and the Company to get a timely return on  
13 certain assets. It will help with regulatory lag, but  
14 it by no means eliminates it.

15 Also, as part of WICA, we would submit,  
16 for review by Staff and OCA, a three-year budget, which  
17 would delineate the projects, which we would ask that  
18 would be reviewed as eligible with the projects. And,  
19 it would be over the three years. The first year being  
20 the most current, and it would be -- the estimated  
21 costs would probably be more accurate than say in year  
22 two and year three. And, each November 1 we'd come in  
23 with a new three-year estimate, so that Staff, the OCA,  
24 and the Commission could actually review these.

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[WITNESS: Discepolo]

1                   Once we've got approval on the items or  
2                   the types of projects, the Company would then make an  
3                   annual filing for recovery of the projects that were  
4                   actually complete, used and useful, and in service. At  
5                   that time, Staff would have an opportunity to review  
6                   the costs, we would submit the costs, and within 60  
7                   days we would propose to have the rates come into  
8                   effect. If there was a concern or if there is a need  
9                   to review the costs or there's a concern that needs  
10                  further investigation, we could implement the rates  
11                  within the 60 days, and then come back and reconcile  
12                  any differences that would have result as a result of  
13                  the further audit of those numbers.

14                  Again, the Commission -- this is a Pilot  
15                  Program, and I just want to get that out. It's a Pilot  
16                  Program. It can be subject to change. It would be  
17                  reviewed in the next case in any event, if, in fact,  
18                  the Commission determined changes or Staff and OCA  
19                  determined that there were tweaks or changes that  
20                  should be made.

21                  The WICA would be applied evenly to all  
22                  classes of customers. It would appear as a surcharge  
23                  on each individual customer's bill. There is a cap on  
24                  the WICA. WICA cannot be greater than 5 percent in any

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1       given year, or seven and a half percent between rate  
2       case cycles. So, there's a definitive cap. And,  
3       again, I would reiterate that this is a Pilot Program,  
4       and it can be subject to change or amendment or  
5       whatever the decision is by the Commission.

6   Q.   So, to be clear how the cap works, suppose in the first  
7       year the Company came in, and the first year after a  
8       rate case it had some improvements that it wanted to  
9       seek a WICA adjustment for, the maximum amount that  
10      rates could increase in that year one would be how  
11      much?

12  A.   Five percent of base revenues, revenues that were  
13      authorized in the last case, water revenues only, five  
14      percent of that number.

15  Q.   And, so, if, in year two, the Company came in and had a  
16      similar slightly higher amount of improvements that it  
17      wanted to make, that would be equal again to 5 percent,  
18      how much of that could be implemented?

19  A.   Only two and a half percent could be implemented,  
20      because the total between rate case times is no --  
21      revenues cannot increase greater than seven and a half  
22      percent of base water revenues in the last allowed rate  
23      case.

24  Q.   And, so, if the Company did that, and now it's at the

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1       seven and a half percent, and there still wasn't a  
2       general rate case, and in year three it came in, could  
3       it get any WICA adjustment at all?

4   A.   Absolutely no WICA adjustment would be permitted,  
5       because you're already at the cap of seven and a half  
6       percent.

7   Q.   And, so, at that point, either the Company would delay  
8       a further increase or would file a rate case?

9   A.   Correct. It would either be delayed or be part of a  
10       general rate increase.

11   Q.   Okay. Thank you. There were a few other proposals  
12       that the Company had made in its original filing that  
13       you haven't discussed. And, could you just touch on  
14       that briefly please.

15   A.   Sure. The Company had initially proposed in its case a  
16       provision for a System Development Charge and a Water  
17       Balance Plan and conservation measures, but issues were  
18       raised with respect to policy, policy issues. And, we  
19       feel that it warrants further consideration, so we are  
20       taking it off the table.

21                   The Company also agrees to work with the  
22       Town of North Hampton and all the municipalities to  
23       assist in developing any ordinance or other means to  
24       promote water conservation. So, we'll continue to work

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1 with the municipals and the Company to find and  
2 implement conservation measures.

3 Q. Is it your position that the Settlement is consistent  
4 with the public interest?

5 A. Yes. We believe that the Settlement is. It was a  
6 compromise between all parties, as you can see, most  
7 all parties or all parties signed on to the Settlement  
8 Agreement. Initially, we had significant differences.  
9 But, as the process went on, we worked together as a  
10 group and made compromises and derived a settlement  
11 that we believe is a benefit to the customer, the  
12 Company, and all parties concerned. And, we'd like to  
13 take this opportunity to thank all the parties  
14 involved, because we believe that there were really  
15 constructive talks and everybody worked hard at  
16 achieving great results.

17 MR. CAMERINO: Thank you. That  
18 completes my direct examination.

19 CHAIRMAN GETZ: Thank you. Mr. Ratigan.

20 MR. RATIGAN: Briefly, North Hampton  
21 supports the Settlement proposal as written.

22 CHAIRMAN GETZ: Thank you.

23 MR. RATIGAN: Thank you.

24 CHAIRMAN GETZ: Mr. Gearreald.

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[WITNESS: Discepolo]

1 MR. GEARREALD: Mr. Chairman, on behalf  
2 of the Town of Hampton, I would just like to note that  
3 Exhibit 18, the Settlement Agreement, the Town of Hampton  
4 is not a signatory to that document. Our position on this  
5 is that we are simply not objecting, not opposing the  
6 Settlement, but we're not signing onto it.

7 CHAIRMAN GETZ: Okay. Thank you.

8 MR. GEARREALD: Thank you very much.

9 CHAIRMAN GETZ: And, neither of you  
10 gentlemen have questions for Ms. Discepolo?

11 MR. RATIGAN: No.

12 MS. THUNBERG: No, Mr. Chairman. Thank  
13 you.

14 CHAIRMAN GETZ: Thank you. And,  
15 Ms. Hollenberg.

16 MS. HOLLENBERG: Thank you. Just a  
17 couple questions.

18 WITNESS DISCEPOLO: Certainly.

19 CROSS-EXAMINATION

20 BY MS. HOLLENBERG:

21 Q. I believe that you, when you were describing the WICA  
22 process, mentioned that, after the costs, actual cost  
23 information was available, you would file that with the  
24 Commission. And, you would agree that the OCA would

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[WITNESS: Discepolo]

1           also receive a copy of that information?

2     A.    That is correct.

3     Q.    And, that the process of reviewing the actual costs,  
4           that the OCA would be a part of that process as well?

5     A.    Yes, they will.

6     Q.    If you could look at the Settlement Agreement, Page 7,  
7           it's Paragraph H(4) that I wanted to ask you a question  
8           about.

9     A.    Yes.

10    Q.    Could you, with regard to the costs, there will not be  
11           a reconciliation of costs or expenses, except for any  
12           true-up needed, if a temporary WICA were to take place,  
13           is that correct?

14    A.    That is correct.

15    Q.    Could you, though, explain how the property tax expense  
16           works? Because I think, would you agree, that that's a  
17           slightly different type of expense than another type,  
18           would you just explain that please?

19    A.    Sure. Property taxes are one of the costs that we  
20           would ask to get recovered with respect to the WICA  
21           eligible plant. However, we would not ask to get  
22           recovery of property taxes unless we did receive a bill  
23           for it from the respective municipality or town. So,  
24           for example, in the first year, some of the projects

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[WITNESS: Discepolo]

1       might be completed so that there would be a bill in  
2       place, and therefore we would only ask if we received a  
3       bill for those property taxes. It would be in the  
4       second subsequent year if, in fact, we would ask to  
5       have 100 percent of the property taxes recovered. And,  
6       in the third year, we would not increase the property  
7       taxes for any increase in mill rate.

8    Q.   And, would you agree that there may be instances where  
9       there are some -- there is some property that's been  
10       put into service that you may not necessarily have  
11       received a tax bill on yet?

12   A.   Yes.

13   Q.   And, that those, the property taxes associated with  
14       that type of property would be prorated for the time  
15       period that that property was in service and would be  
16       an estimate amount?

17   A.   Correct.

18   Q.   And, then, in the second year, there would be one  
19       reconciliation or one true-up, which would be 12 months  
20       of the actual latest tax bill for that property?

21   A.   That's correct.

22   Q.   Okay. And, would you agree generally, I think you  
23       alluded to this in your direct testimony with regard to  
24       the WICA that there may be some refinement that's

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[WITNESS: Discepolo]

1           necessary after the Commission approves the Pilot  
2           Program?

3    A.    I agree.  There could be changes as we go along and  
4           become more experienced with the program.  There could  
5           conceivably be changes to the program as it exists  
6           today.

7    Q.    Okay.  And, you would agree that that would be a  
8           process that the OCA would be included in?

9    A.    Correct.

10                       MS. HOLLENBERG:  Okay.  Thank you.

11           Nothing further.  Thank you.

12                       CHAIRMAN GETZ:  Thank you.

13           Ms. Thunberg.

14                       MS. THUNBERG:  Yes.  Good morning,

15           Ms. Discepolo.

16                       WITNESS DISCEPOLO:  Good morning.

17    BY MS. THUNBERG:

18    Q.    I do have a few questions on the Settlement Agreement.

19           Do you have that document in front of you?

20    A.    I do.

21    Q.    And, I'd like to have you turn to Page 11 please.

22    A.    Yes.

23    Q.    And, I draw your attention to the farthest right  
24           column, --

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[WITNESS: Discepolo]

- 1 A. Yes.
- 2 Q. -- which shows, at the very bottom, "17.44 percent".
- 3 And, I just wanted to have you identify that the
- 4 "18.14 percent", and all of the percentages below that,
- 5 are the customer class percent increases for the
- 6 permanent rate, is that correct?
- 7 A. That is correct. The "17.44" is overall, and then the
- 8 individual percentages are delineated by each customer
- 9 class. Correct.
- 10 Q. Okay. You mentioned in your direct that connection
- 11 fees were going up, and that the revenues from those
- 12 connection fees estimated to be about \$26,000 are being
- 13 applied to the public fire protection customer class.
- 14 A. Correct.
- 15 Q. And, does that account, in part, for why, on this
- 16 particular page, the rate increase for public fire is
- 17 only 9.99 percent?
- 18 A. That is correct.
- 19 Q. And, can you state whether, or, if you know, all of the
- 20 items that have been identified in rate base are used
- 21 and useful presently?
- 22 A. Yes, they are all used and useful.
- 23 Q. And, I believe you might have already answered that
- 24 same question for the step adjustment, the Mill tank --

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[WITNESS: Discepolo]

1        Mill Road tank. Is that -- Are the projects that were  
2        the subject of the step adjustment used and useful?

3    A.    Yes, they are used and useful.

4    Q.    Can you please just describe a little bit more about  
5        the temporary rate reconciliation, how that's going to  
6        go into effect? Because, if you recall, in this docket  
7        there were two different effective dates for temporary  
8        rates?

9    A.    Right. Temporary rates will be reconciled back to the  
10       December 15th, 2008 date. However, temporary rates  
11       went into effect, it was February 1st, so, therefore,  
12       we'll look at the permanent rates, the permanent rates  
13       will be calculated from December 15th to February 1st.  
14       Then, we'll look at the permanent rate percentage  
15       increase and compare it to the temporary rates, and  
16       recoup that difference from the time span from the  
17       temporary rates, February 1st, to the decision date or  
18       the effective date of the 100 percent new rate  
19       increase.

20   Q.    Thank you for that explanation. I just have a couple  
21       questions with respect to the step adjustment that is  
22       sought. You mentioned that it would increase revenue  
23       requirement I think by \$210,000 or thereabouts?

24   A.    Correct.

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[WITNESS: Discepolo]

1 Q. Now, if the Commission were to deny the step  
2 adjustment, do you have an opinion as to what the  
3 impact would be to the Company's rate of return?

4 A. Well, it would significantly plummet the Company's rate  
5 of return. Right now, we're earning significantly  
6 below our last authorized rate of return, because,  
7 obviously, that plant is used and useful, it's in the  
8 operations, and it is in rate base. So, not to get the  
9 revenues associated with that would definitely not  
10 allow us to earn anywhere near our allowed return.

11 Q. Can I have you turn to Page 19 of the Settlement  
12 Agreement please? And, I'm drawing your attention to  
13 the "3.58 percent" overall percent increase. And, the  
14 other customer class percentage increases, are these  
15 increases consistent with the cost of service study  
16 that the Company did I think a rate case ago?

17 A. It basically follows the cost of service study, with  
18 respect to one little adjustment associated with -- oh,  
19 with the step increase? Yes. I'm sorry. I apologize.  
20 It follows the last cost of service study, correct.

21 Q. But is there an exception for the public fire --

22 A. The step increase is evenly across the board for all  
23 customer classes.

24 Q. Thank you. With respect to the step increase

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[WITNESS: Discepolo]

1 implementation, is this going to be implemented on a  
2 service rendered basis or a bills rendered basis?

3 A. We could do it on a bills rendered basis, or service  
4 rendered. I mean, we are doing service rendered for  
5 the temporary rates. If you prefer service rendered,  
6 we will go ahead with service rendered.

7 Q. The only reason I asked that is because it wasn't  
8 specified in the Settlement Agreement. And, for your  
9 edification, we have the administrative rule that  
10 requires service rendered. And, I just wanted to cover  
11 that point in the hearing today.

12 A. We'll do it --

13 Q. If it was bills rendered, we'd ask for a waiver.

14 A. Service rendered it is.

15 Q. Thank you for that clarification. And, I just wanted  
16 to touch upon the WICA. You mentioned some of the  
17 benefits to the customers. I believe, was one of them  
18 that it would mitigate rate shock and that it would  
19 have rate increases coming in smaller amounts, but more  
20 frequently? Is that what one of the intent is with  
21 this WICA?

22 A. Absolutely. Because we'll be filing on an annual  
23 basis, there will be a gradual increase in rates.  
24 Instead of having rates increase from rate case to rate

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[WITNESS: Discepolo]

1 case, it will gradually increase for the plant that we  
2 would be permitted to put in for WICA eligible only  
3 plant.

4 Q. And, am I also fairly characterizing that another  
5 benefit is that the customers will be benefiting  
6 because aging infrastructure is going to be replaced,  
7 and therefore the reliability of the system will be  
8 increasing?

9 A. Absolutely.

10 MS. THUNBERG: Staff has no further  
11 questions. Thank you.

12 CHAIRMAN GETZ: Thank you.

13 BY CMSR. BELOW:

14 Q. On several of the schedules on rates, for example, on  
15 Page 19 of the Settlement Agreement, there's a -- on  
16 Line 10, it's "miscellaneous" for a "Rate/Class of  
17 Service". Could you just characterize what that  
18 "miscellaneous" is?

19 A. Yes. It's late payment fees, antenna rentals,  
20 connection charges.

21 CMSR. BELOW: Okay. Thank you. That's  
22 all.

23 BY CHAIRMAN GETZ:

24 Q. Good morning, Ms. Discepolo. I'd like to talk a little

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[WITNESS: Discepolo]

1 bit about the WICA charge.

2 A. Yes.

3 Q. And, your testimony indicates that your Director of  
4 Rates and Regulation, and you've testified on a variety  
5 of issues in Connecticut, New York, and Massachusetts.

6 A. Uh-huh.

7 Q. And, I guess, would it be fair to say, from the  
8 Company's perspective, that a WICA charge addresses the  
9 issue of regulatory lag?

10 A. It somewhat addresses regulatory lag. Obviously, it's  
11 only for certain plant, not all Company's plant. And,  
12 from the minute you come out of a rate case, all your  
13 plant is recognized. So, to a certain extent it does,  
14 but it does not address the entire regulatory lag.

15 Q. Are there comparable WICA-type charges in any of  
16 Connecticut, New York, or Massachusetts?

17 A. Connecticut has a WICA charge, yes.

18 Q. Okay. And, do any of those states -- well, if I recall  
19 correctly, New York has a fully forecasted test year.  
20 Does that address some of these types of issues or  
21 would you -- would they be incompatible, an adjustment  
22 charge like this, in a jurisdiction where there was a  
23 fully forecasted test year?

24 A. Well, we're not in New York anymore. The water

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[WITNESS: Discepolo]

1       utilities, when we were there, were historical rate  
2       years, and they did make provisions for plant going  
3       down the road, where you were allowed to get that  
4       recognized. It's a little bit different, it's a  
5       hybrid. But, in Connecticut, they use the same return  
6       on rate base. It's pretty much that what we put forth  
7       in New Hampshire follows the WICA in Connecticut. But  
8       we're not familiar with New York as much anymore, but  
9       they do have a WICA, and it is for select plant.

10    Q.    I'm sorry, who has a WICA?

11    A.    New York has a form of a WICA, but it's done on a  
12       case-by-case basis, a utility-by-utility basis.

13    Q.    And, I may have lost you. In Connecticut?

14    A.    Connecticut has a WICA, and --

15    Q.    And, what do they use for a test year? Is it  
16       historical or fully forecasted?

17    A.    Historical.

18    Q.    Okay.

19    A.    But we are allowed to project plant to the decision  
20       date. So, it's -- your plant doesn't end in your test  
21       year, you're allowed to project it until such time as  
22       the decision is issued. So, there is somewhat of a  
23       proforma plant component to it.

24    Q.    And, then, let's go back to Massachusetts.

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[WITNESS: Discepolo]

1           Massachusetts?

2    A.    They allow very little proforma plant, but they do not  
3           have WICA yet. We are currently in the process or will  
4           be to speak with their legislatures and its commission  
5           to discuss the ability to implement a WICA.

6    Q.    Okay. Well, do you have any general opinion, you know,  
7           based on your experiences and preference among  
8           addressing these types of issues, either through  
9           adjustment charges or fully forecasted test years  
10          versus historical test years or split test years, do  
11          you have any -- or any other mechanisms for addressing  
12          these issues when infrastructure is continually being  
13          upgraded?

14   A.    Well, I think the WICA is a great mechanism and a great  
15          program as a means of addressing certain plant with  
16          respect to infrastructure, because that's what WICA is  
17          only designed to do is to recoup infrastructure. There  
18          are -- I'm not familiar with commissions, obviously, I  
19          think the best of all worlds would be to project rate  
20          cases out and project plant out, project O&M expenses  
21          out going out several years and get rates associated  
22          with that. But that's a very difficult thing to do.  
23          And, most commissions that I've been involved with  
24          don't want to go down that road with projecting all the

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[WITNESS: Discepolo]

1 way down for, say, if you're in a three year cycle,  
2 you're projecting three years out and setting rates to  
3 gradually increase over the next three years, WICA will  
4 at least assist companies to make -- hopefully begin to  
5 earn somewhat close to their allowed rate of return, as  
6 you're allowed to recognize plant slowly and gradually.

7 CHAIRMAN GETZ: Okay. Thank you.

8 Mr. Camerino, do you have anything for redirect?

9 MR. CAMERINO: Just one thing.

10 REDIRECT EXAMINATION

11 BY MR. CAMERINO:

12 Q. I want to go back to the property tax issue.

13 A. Yes.

14 Q. I think there were two different descriptions. And, as  
15 the politicians say, "I want to see if perhaps there's  
16 a third way." And, again, I'm focusing you on Page 7  
17 of the Settlement, if you look at Paragraph 4 on that  
18 page. And, what I'm going to do is just take you  
19 through, say, the first three years of a WICA charge  
20 and what would happen with the property tax bill, so we  
21 can understand from a practical standpoint.

22 A. Sure.

23 Q. So, in the first year, when the Company comes in and  
24 seeks a WICA adjustment, let's assume that the plant

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[WITNESS: Discepolo]

- 1           went into service in July. The value of that plant  
2           addition, that will not be reflected in taxes until the  
3           Company receives its next tax bill, is that correct?
- 4   A.   That is correct.
- 5   Q.   Okay. And, do you know when that tax bill comes or  
6           what the tax year is when those plant additions will  
7           first be reflected?
- 8   A.   The following July, the following year.
- 9   Q.   Following -- and, let me just suggest to you, in New  
10          Hampshire, April 1 is the beginning of the tax year for  
11          municipalities. And, so, you're saying that next tax  
12          bill is the first time the Company would actually pay  
13          taxes on that plant?
- 14   A.   Correct.
- 15   Q.   And, do you recall that the Consumer Advocate had  
16          raised the concern that it didn't want the Company to  
17          be collecting revenues for taxes that it hadn't been  
18          billed for?
- 19   A.   Correct.
- 20   Q.   And, that's, I think take it, what this provision is  
21          intended to address in large part?
- 22   A.   Yes, it is.
- 23   Q.   So, when you said "the taxes would be prorated", it's  
24          that first year that you're referring to?

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[WITNESS: Discepolo]

1 A. Correct.

2 Q. Okay. And, so, in my example, if the plant went into  
3 service in July, and the WICA I guess is supposed to be  
4 effective January 1, --

5 A. Correct.

6 Q. -- you would only have paid nine months, I have to do  
7 my math, nine months of taxes in the first year that  
8 that WICA relates to, right?

9 A. Correct.

10 Q. And, so, that nine months is the proration that this  
11 paragraph refers to?

12 A. Yes, it is.

13 Q. Okay. But the place I want to clarify is, you said you  
14 would only pay taxes if you had actually received a  
15 bill?

16 A. You are correct.

17 Q. Okay. Could you clarify how you would figure out the  
18 taxes for that first year, if you haven't received a  
19 bill?

20 A. Well, we would have the value of the plant. We would  
21 have the prior bill to know what the mill rate is, and  
22 we'd calculate what the taxes would be, and then  
23 prorate them accordingly.

24 Q. And, so, when this paragraph refers to an "estimate",

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[WITNESS: Discepolo]

- 1           you would be estimating the taxes for that first year?
- 2   A.    Correct.
- 3   Q.    But you would only include taxes for the portion of the
- 4           year that you were actually paying taxes?
- 5   A.    That is correct.
- 6   Q.    And, the next year you'd come in and you'd have -- you
- 7           might be filing for a new WICA for new plant additions,
- 8           but you would also have this continuing WICA from year
- 9           one, right?
- 10  A.    Correct.
- 11  Q.    And, you would not reconcile that, if your revenues
- 12           didn't recover what you had hoped to recover, you would
- 13           not reconcile that, correct?
- 14  A.    No, we would not.
- 15  Q.    But at that point you'd have a real tax bill.
- 16  A.    Yes, we would.
- 17  Q.    What would you do to the WICA as a result of having
- 18           that new tax bill?
- 19  A.    We would reflect the actual taxes and reflect 12 months
- 20           of the taxes associated with that WICA eligible plant,
- 21           instead of the nine-twelfths.
- 22  Q.    So, that first WICA would be changed to reflect your
- 23           actual tax bill at 12 months at that point?
- 24  A.    Correct.

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[WITNESS: Discepolo]

1 Q. The next year you come in you're still -- you're  
2 collecting that same WICA?

3 A. Yes.

4 Q. And, now, you've got a new tax bill, no doubt the tax  
5 rate will have changed, probably have gone up. Are you  
6 going to change that WICA again?

7 A. No, we would not change the WICA at that point in time.

8 MR. CAMERINO: All right. Thank you.

9 CHAIRMAN GETZ: Okay. Anything further  
10 for the witness?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing nothing, then  
13 you're excused. Thank you. Mr. Camerino.

14 MR. CAMERINO: The Company has nothing  
15 further. Thank you.

16 CHAIRMAN GETZ: Ms. Hollenberg or  
17 Ms. Thunberg?

18 MS. HOLLENBERG: Thank you. I'd like to  
19 call Ken Traum to the stand.

20 (Whereupon Kenneth E. Traum was duly  
21 sworn and cautioned by the Court  
22 Reporter.)

23 KENNETH E. TRAUM, SWORN

24 DIRECT EXAMINATION

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[WITNESS: Traum]

1 BY MS. HOLLENBERG:

2 Q. Good morning, Mr. Traum. Would you please state your  
3 name and business address for the record.

4 A. Certainly. Kenneth E. Traum. I'm the Assistant  
5 Consumer Advocate. Our office is located at 21 South  
6 Fruit Street, Suite 18, in this building.

7 Q. And, you are a Utility Analyst, is that correct?

8 A. A Utility Analyst and Assistant Consumer Advocate.

9 Q. Yes. Thank you. Do you agree that you filed testimony  
10 in this docket along with Stephen Eckberg?

11 A. Yes. It's joint testimony filed by Mr. Eckberg and  
12 myself.

13 Q. And, do you have any corrections to make to that  
14 testimony?

15 A. Just two very small ones. On Page 2, Line 6, we noted  
16 that "Aquarion serves approximately 8,770", we had used  
17 the word "residential customers", and we'd like to  
18 strike the word "residential", so it should just  
19 indicate that "Aquarion serves approximately 8,770  
20 customers." The second minor correction we had was on  
21 Page 26 of the testimony, Line 4, where we indicated  
22 that "Further, the cumulative increase for the  
23 effective [entire?] Pilot period should be capped at  
24 some total percent of rate base." The words "rate

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[WITNESS: Traum]

1 base" should be stricken and replaced with "revenues".

2 Q. Thank you. Aside from those two corrections, would you  
3 agree that your testimony filed with Mr. Eckberg is  
4 true and correct to the best of your knowledge and  
5 belief?

6 A. Yes, it is. Obviously, it has been superseded by the  
7 Settlement Agreement, though.

8 Q. Certainly. And, do you agree that it was prepared by  
9 you or under your direction?

10 A. I'd like to say it was prepared by Mr. Eckberg and  
11 myself jointly, but certainly with significant  
12 assistance from counsel.

13 Q. Thank you. Did you participate in the negotiations on  
14 behalf of the OCA of the Settlement Agreement?

15 A. Again, it was a team effort on behalf of the OCA. I  
16 participated, as well as Mr. Eckberg and counsel.

17 Q. And, would you like to summarize the Office of Consumer  
18 Advocate's position on the Settlement Agreement please.

19 A. Certainly. I'd like to start by thanking the Company  
20 and the parties for the cooperative process in this  
21 case, which we believe resulted in a Settlement that we  
22 certainly recommend to the Commission for approval.  
23 This is a full settlement, with a lot of give-and-take  
24 by all parties. And, in that light, the OCA views the

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[WITNESS: Traum]

1 revenue requirement increases effectively a "black box"  
2 resolution, that could be viewed or it should be viewed  
3 that way. But it does recognize that there's a  
4 9.75 percent return on equity as specifically laid out  
5 in the Settlement document.

6 Q. And, do you have any comments about any of the specific  
7 provisions of the Settlement Agreement?

8 A. Sure. I'd like to just -- I'll briefly highlight a  
9 couple of the other paragraphs. Paragraph D is the  
10 "Connection Fee". And, I think what's important to  
11 recognize there is that it will now be a cost-based  
12 fee, which is consistent with the general position of  
13 the OCA that existing customers should not be  
14 subsidizing new ones.

15 Q. And, do you have any comments about Paragraph E, "Rate  
16 Design"?

17 A. Certainly. We view this paragraph as sort of in two  
18 aspects. First, as a result of the give-and-take of  
19 the settlement process, and the advocacy by the towns,  
20 the public fire protection rate will be increasing by  
21 9.99 percent prior to the step adjustment. The  
22 remainder of the increase will be recovered on an equal  
23 percentage basis across the board from all customer  
24 classes. And, similarly, the step adjustment

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[WITNESS: Traum]

1       recoupment and reasonable and prudent rate case  
2       expenses will also be recovered as an equal percentage  
3       basis from all customer classes, and that would include  
4       the public fire protection.

5   Q.   How about any comments on Paragraph H, which covers the  
6       "WICA"?

7   A.   Certainly. The OCA originally supported this new  
8       concept as a pilot in our testimony, with conditions.  
9       The WICA is outlined in the Settlement as one we  
10      support as a pilot, which may help to delay future rate  
11      cases, address needed non-revenue producing asset  
12      additions on a timely basis, have limited rate impact,  
13      and include the parties in the process before the  
14      dollars are actually spent. While all of the details  
15      have not yet been completely worked out with regards to  
16      WICA, we would expect that the parties will continue to  
17      cooperate and resolve any issues as they come up for  
18      implementation.

19               I would just like to add at this point,  
20      in response to the Chairman's questions. We did, in a  
21      data request, which we can provide later, if desired,  
22      in OCA 1-15, ask about other states the Company was  
23      aware of that had WICA-type mechanisms. And, I believe  
24      there were nine other states that have somewhat similar

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[WITNESS: Traum]

1 mechanisms. And, Mr. Eckberg did go through those,  
2 looking for, you know, particular points that we wanted  
3 to see included in an adjustment clause here.

4 The other thing I'd mention is that,  
5 where the WICA concept may be new to New Hampshire from  
6 a water industry -- water utility industry perspective,  
7 I don't think it's that new in terms of, on the gas  
8 side and the electric side, we have, whether it be bare  
9 steel main surcharges in the past or reliability-type  
10 surcharges for the electrics, this kind of a concept is  
11 not unique in New Hampshire.

12 Q. Thank you. The Company touched upon their withdrawal  
13 of the other mechanisms that were proposed in their  
14 original filing. And, I wondered, that's covered by  
15 Paragraph I of the Settlement Agreement, do you have  
16 any comments about Paragraph I?

17 A. Sure. While the Company is for now withdrawing its  
18 proposals for a System Development Charge or a Water  
19 Balance Plan and inclining block rates, the OCA had  
20 generally supported those concepts in our prefiled  
21 testimony. And, I want to stress the settling parties  
22 have agreed to continue to explore potential  
23 implementation of water conservation measures, whether  
24 in these forms or others.

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[WITNESS: Traum]

1                   In addition, we applaud the Company in  
2                   their willingness to work with the municipalities on  
3                   water conservation, which we view as a particularly  
4                   significant issue on the Seacoast. Needless to say,  
5                   the OCA is supportive of cost-effective conservation  
6                   and pricing for Aquarion, as we are for other utility  
7                   industries. So, we hope these discussions will be very  
8                   productive and develop aggressive approaches to the  
9                   problems.

10    Q.    Thank you. I just wondered, I'll ask you one final  
11           question, there was some discussion when Ms. Discepolo  
12           was on the stand about the step adjustment and whether  
13           or not it would be implemented on a bills rendered or  
14           service rendered basis. Do you have any position on  
15           that issue?

16    A.    While we support the step adjustment, we think it  
17           should be on a service rendered basis, as we feel it  
18           would be more appropriate.

19                   MS. HOLLENBERG: Thank you. Thank you.  
20    No other questions.

21                   CHAIRMAN GETZ: Mr. Ratigan, any  
22    questions for Mr. Traum?

23                   MR. RATIGAN: No questions.

24                   CHAIRMAN GETZ: Mr. Gearreald?

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[WITNESS: Traum]

1 MR. GEARREALD: Yes, Mr. Chairman.

2 CROSS-EXAMINATION

3 BY MR. GEARREALD:

4 Q. Mr. Traum, as part of its data requests in this matter,  
5 like the Town of Hampton, did the OCA inquire as to  
6 issues of executive compensation and charges that are  
7 passed down to Aquarion from its parent for executive  
8 services?

9 A. Yes. We did ask data requests along that line, as I  
10 believe the Town did also.

11 Q. And, as part of its due diligence, was the OCA  
12 satisfied with the answers that were received?

13 A. I believe the answers were honest and truthful. In  
14 terms of what we did with the answers, they were  
15 subsumed within the overall Settlement.

16 MR. GEARREALD: Thank you.

17 CHAIRMAN GETZ: Ms. Thunberg?

18 MS. THUNBERG: The Staff has no  
19 questions. Thank you.

20 CHAIRMAN GETZ: Mr. Camerino.

21 MR. CAMERINO: No thank you.

22 CHAIRMAN GETZ: And, nothing from the  
23 Bench. So, I take it there's no need for redirect?

24 MS. HOLLENBERG: No thank you.

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[WITNESS: Naylor]

1 CHAIRMAN GETZ: The witness is excused.

2 Thank you, Mr. Traum. Ms. Thunberg.

3 MS. THUNBERG: Yes. Staff would like to  
4 call Mark Naylor to the stand.

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

7 MARK A. NAYLOR, SWORN

8 DIRECT EXAMINATION

9 BY MS. THUNBERG:

10 Q. Mr. Naylor, if you could just state your name and  
11 position for the record.

12 A. Yes. My name is Mark Naylor. And, I'm the Director of  
13 the Gas and Water Division here at the New Hampshire  
14 PUC.

15 Q. And, can you just summarize what your responsibilities  
16 are as Director?

17 A. I manage the staff of the Division, and am responsible  
18 for the work product of the Division.

19 Q. And, did part of that work product involve filing  
20 testimony in this docket?

21 A. Yes.

22 Q. And, did part of that involvement also include drafting  
23 or participating in the drafting of the Settlement  
24 Agreement that's been marked for identification in this

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[WITNESS: Naylor]

1 proceeding as "Exhibit 18"?

2 A. Yes.

3 Q. And, you're familiar with the terms of that document?

4 A. Yes, I am.

5 Q. With respect to the step adjustment that's been

6 mentioned in here, your familiar with the Mill Road

7 projects?

8 A. Yes, I am.

9 Q. And, did Staff conduct an audit of those assets that

10 are -- sorry, let me just rephrase that. Did Staff

11 conduct an audit of the assets that are proposed in the

12 step adjustment?

13 A. Yes.

14 Q. And, did the audit conclude that they were used and

15 useful?

16 A. Yes, I believe so. Yes, I know that the numbers that

17 are included in the settlement for the values are

18 audited figures. So, I believe that it's very safe so

19 to say that the plant is in service.

20 Q. And, do you have an opinion as to the just and

21 reasonableness of the rates that are proposed in the

22 Agreement?

23 A. I believe the revenue requirement and the resulting

24 rates proposed in the Agreement are just and

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[WITNESS: Naylor]

1 reasonable.

2 Q. And, you've heard the description about the WICA  
3 proposal in the Agreement. I'd like to have you  
4 comment, if you have anything additional to add to the  
5 process that Ms. Discepolo had described, from Staff's  
6 point of view of how it will be responding to this  
7 WICA?

8 A. Well, I think the testimony before me has indicated  
9 that this is not a new concept. There are a number of  
10 states that have adopted it for water utilities. I  
11 think we wanted, in this proceeding, to evaluate the  
12 benefits of it, potential benefits, for customers, as  
13 well as the Company. I think it was certainly helpful  
14 that all the parties to the proceeding, the active  
15 parties viewed it favorably. I think it will give the  
16 Commission, ultimately, and the parties an opportunity  
17 to work closely with the Company on what its priorities  
18 will be for infrastructure replacement, and that is the  
19 focus of this WICA is replacement of aging  
20 infrastructure.

21 So, we will be interested to see whether  
22 it does provide the incentive for the Company to  
23 increase its rate of replacement. It certainly will  
24 provide the Company with a quicker recovery, if you

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[WITNESS: Naylor]

1 will, of its plant investments that are eligible under  
2 the proposed WICA. I think we've established it  
3 appropriately as a Pilot Program. So, I think we've  
4 put together a nice package for it. I think we'll be  
5 able to do the necessary review in a reasonable period  
6 of time, make recommendations to the Commission on it.

7 Certainly, I thought it was helpful that  
8 the towns that participated in the docket were  
9 interested in seeing something like this, such that it  
10 would help to mitigate rate shock going forward as the  
11 Company makes additional capital investments in the  
12 system. So, I think we had all the necessary  
13 ingredients for supporting this and for recommending it  
14 to the Commission.

15 Q. And, Mr. Naylor, the Staff or the Commission has a  
16 process, a Form E-22, for reviewing projects, are you  
17 aware of that?

18 A. Yes, I am.

19 Q. And, can you describe, with that E-22 process in place,  
20 how this WICA is either supplementing it or different  
21 from it?

22 A. Well, the E-22 process provides, at the Staff level, a  
23 mechanism for review of projects which exceed a certain  
24 value level. And, the Company is required to file a

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[WITNESS: Naylor]

1 Form E-22 for Staff review. It's simply an advisory  
2 form. It gives the Staff an opportunity to engage the  
3 Company in a discussion regarding the proposed project  
4 by being advised through the filing of the E-22. That  
5 certainly is markedly different from what we're  
6 proposing here. This is a much more comprehensive  
7 review of proposed projects. The Company will be  
8 making a filing, as it lays out in this document,  
9 proposed three years of eligible projects. The parties  
10 will review it, we'll debate it, and ultimately make a  
11 recommendation to the Commission to keep these projects  
12 on a WICA eligible list. And, then, the Company will  
13 be able to seek rate recovery for those projects in a  
14 form of a surcharge between rate cases. So, it's  
15 markedly different, more comprehensive than the E-22  
16 process that has been in place here.

17 Q. And, I think, I may be reading between the lines, but  
18 correct me if I'm wrong, is it fair to characterize  
19 this WICA process as the Commission will have much more  
20 oversight on the projects of this water company than it  
21 has prior to a WICA implementation?

22 A. Well, I think so. Certainly, in the parties making a  
23 recommendation for what we believe is an appropriate  
24 list of eligible projects, there will be more review,

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[WITNESS: Naylor]

1 more debate of priority and so forth. So, to that  
2 extent, the Commission will ultimately have certainly  
3 more say with respect to the eligible projects for  
4 WICA.

5 Q. I think you already touched upon some of the benefits  
6 to the Company and contrasting that to the benefits of  
7 customers from the WICA. Do you have anything else to  
8 add?

9 A. Well, I think, certainly, mitigation of rate shock is a  
10 significant -- a significant issue. As the Commission  
11 knows, water companies rarely come in here for anything  
12 less than 20 percent or more increases, with all the  
13 requirements over the last 10 to 15 years in the Safe  
14 Drinking Water Act and for other reasons, including  
15 aging infrastructure. So, yes, this is also going to  
16 be helpful in mitigating rate shock. It will  
17 gradualize rate increases for customers. And, I think  
18 there is a significant benefit there.

19 For the Company, it certainly will help  
20 them speed up their cash flow, and hopefully will  
21 provide the incentive that they have indicated they're  
22 seeking for an increase in the rate of infrastructure  
23 replacement.

24 Q. I'd like to get your opinion on the termination of the

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[WITNESS: Naylor]

1 program, because it is briefly described on Page 8, the  
2 first paragraph, where it states, and I'll read from  
3 the document: "The WICA process shall automatically  
4 terminate at the time of a final order in the Company's  
5 next general rate case, unless it is extended by the  
6 Commission in such order or prior to such order." The  
7 purpose of the WICA is to extend the time between rate  
8 cases, correct?

9 A. That is one hopeful result of implementing the WICA.

10 Q. And, the Company is going to be coming in with one,  
11 two, and three year proposals for projects, is that  
12 correct?

13 A. That's correct.

14 Q. Is it conceivable then that the Company could go like  
15 eight years till the next general rate case?

16 A. It's conceivable, yes.

17 Q. Will -- I guess what I just want to ask is, is Staff  
18 prepared to be looking at this on a yearly basis, and  
19 if, for some reason, some major problem in its opinion  
20 arises, that it has the ability to notify the  
21 Commission and that the program can be put under  
22 scrutiny for perhaps termination?

23 A. Yes, I believe that's correct. I believe we have -- I  
24 believe we've written into the Agreement, although I

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[WITNESS: Naylor]

1       can't put my hands on it right at the moment, a  
2       provision for terminating the -- terminating WICA.

3                   CMSR. BELOW: Top of Page 8?

4                   WITNESS NAYLOR: Yes.

5   BY THE WITNESS:

6   A.   Yes. Paragraph 7, beginning at the bottom on Page 7,  
7       and onto Page 8, may be modified or discontinued by the  
8       Commission. I think the remainder of that paragraph is  
9       indicating that, once the WICA projects are in rates,  
10      it's a recognition that the Company is entitled to  
11      continue to earn those revenues through its rates.  
12      But, yes, to your original question, we are, and while  
13      I understand it's a Pilot Program, it can be  
14      terminated. And, I think the last sentence of that  
15      paragraph at the top of Page 8 is intended to require  
16      the parties, and therefore the Commission, to address  
17      WICA at the time the Company files another case. And,  
18      that will be the first -- likely be the first time that  
19      we will evaluate the impact of it and its  
20      effectiveness.

21   BY MS. THUNBERG:

22   Q.   Mr. Naylor, I have no further specific questions,  
23       unless you had a comment that I forgot to ask you  
24       about?

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[WITNESS: Naylor]

1 A. No. I think we're all set. Just to recommend the  
2 Commission approve the Settlement. I think we've  
3 reached a very reasonable compromise on the issues.  
4 And, all the parties have contributed a lot to the  
5 development of this document. And, I think, for the  
6 Staff, we appreciate everyone's efforts.

7 MS. THUNBERG: Thank you. No further  
8 questions.

9 CHAIRMAN GETZ: Mr. Ratigan, do you have  
10 questions for --

11 MR. RATIGAN: None.

12 CHAIRMAN GETZ: Mr. Gearreald?

13 MR. GEARREALD: Yes.

14 CROSS-EXAMINATION

15 BY MR. GEARREALD:

16 Q. Mr. Naylor, you mentioned, in response to direct  
17 questions, that an audit was performed with regard to  
18 the water tower. However, the audit -- an audit was  
19 performed that actually included much more than that,  
20 isn't that so, in connection with this case?

21 A. Actually, there were two audit documents prepared,  
22 audit procedures resulting in documents. One was for  
23 the test year, which I believe that document has been  
24 shared with all the parties. And, then, a second audit

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1 review specifically for the Mill Road Project, which  
2 was completed within the past month, I believe.

3 Q. Thank you. With regard to WICA, is Staff willing to,  
4 as it receives notice of filings by the Company on  
5 WICA, to notify the municipalities involved, whose  
6 customers are affected, so that they, too, may monitor  
7 developments in the program?

8 A. I believe that is what is intended, yes. And,  
9 certainly, I'm encouraged that the parties to this case  
10 can participate in the review of the projects, as well  
11 as the Company's first request for an actual surcharge.

12 Q. Right. So that, not merely will Staff and the OCA be  
13 involved, but potentially others?

14 A. Certainly.

15 MR. GEARREALD: Thank you.

16 CHAIRMAN GETZ: Ms. Hollenberg?

17 MS. HOLLENBERG: Thank you. Just two  
18 quick questions.

19 BY MS. HOLLENBERG:

20 Q. You were asked on direct about the process that was  
21 provided for in the Settlement Agreement, and it's in  
22 Paragraph 7, on Page 7, where the parties could ask the  
23 Commission to look at the WICA, if they have any  
24 concerns about it. And, I just wanted to see if you

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[WITNESS: Naylor]

1 would agree that, to the extent that Staff or anyone  
2 else has a concern about the party -- or, about the  
3 Company's earnings, you could ask, notwithstanding the  
4 terms of Settlement Agreement, you could ask the  
5 Commission to start a proceeding or a general rate case  
6 or you could ask them to look at the Company's  
7 earnings, do you agree with that?

8 A. Absolutely.

9 Q. Okay. So, even if the Settlement Agreement didn't  
10 provide that, you would be able to do that under the  
11 law?

12 A. I believe that is correct.

13 Q. Okay. And, if you could just look at the Settlement  
14 Agreement, the Settlement Attachment C, which is the  
15 proposed tariff. And, if you could look at Page 3 of  
16 that Settlement Attachment C, do you see the paragraph  
17 about halfway down that says "Annual updates"?

18 A. Yes, I do.

19 Q. You were just asked by the Town of North Hampton if the  
20 Staff would -- I'm sorry, the Town of Hampton, excuse  
21 me, if the Staff would provide notice of filings by the  
22 Company. Do you see where it says that the Company is  
23 required to provide notice of its filings directly to  
24 the Towns?

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[WITNESS: Naylor]

1 A. Yes, I see that.

2 MS. HOLLENBERG: Okay. I don't have any  
3 other questions. Thanks.

4 CHAIRMAN GETZ: Thank you.

5 MS. HOLLENBERG: Thank you.

6 CHAIRMAN GETZ: Mr. Camerino?

7 MR. CAMERINO: No questions. Thank you.

8 CHAIRMAN GETZ: Okay. And, no questions  
9 from the Bench. So, is there anything further for  
10 Mr. Naylor?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing nothing, then  
13 you're excused. Thank you. I take it there are no  
14 further witnesses. So, is there any objection to striking  
15 identifications and admitting the exhibits into evidence?

16 (No verbal response)

17 CHAIRMAN GETZ: Hearing no objection,  
18 they will be admitted into evidence. Are there any other  
19 issues we need to address before providing an opportunity  
20 for closings?

21 (No verbal response)

22 CHAIRMAN GETZ: Hearing nothing, then,  
23 begin with Mr. Ratigan.

24 MR. RATIGAN: The Town of North Hampton

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1       would first like to thank the Company for presenting not  
2       only the WICA, but the Water Balance Charge, the System  
3       Development Charge. Like the OCA, we would have liked to  
4       see those concepts incorporated into a final settlement.  
5       We understand Rome was not built in a day, and it may take  
6       yet another hearing before this Commission before those  
7       concepts are explored and adopted.

8                       We regret, but understand, that the  
9       Company is not able to move as quickly as many of the  
10      parties would have liked towards automatic meter reading,  
11      and which would have allowed for the adoption of an  
12      inverse or inclining block rate, which would -- we think  
13      would give correct pricing signals on water, and we hope  
14      we'll be able to revisit that. And, though, an eight year  
15      time limit for another rate case would probably be an  
16      outside parameter. We think that we would like to get to  
17      those issues in a shorter time, and we understand that  
18      three years might be appropriate.

19                      Secondly, we think that, aside from the  
20      economic issues, the WICA provides an opportunity for the  
21      communities to cooperate with the Company on reviewing  
22      future capital investment projects. And, although it is  
23      not a large portion of their annual proposed capital  
24      investments, we think that's a good place to start.

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1                   And, then, lastly, we take seriously the  
2     Company's offer to work with the communities on water  
3     conservation. And, we anticipate we will follow up with  
4     that. The OCA has expressed this, as the Staff, a  
5     long-standing interest in these issues. And, we think  
6     that's appropriate. Although, you would not know it from  
7     this year, we understand that water will continue to be a  
8     challenge for the Seacoast area as there's additional  
9     growth. And, with that, thank you.

10                   CHAIRMAN GETZ: Thank you.  
11     Mr. Gearreald.

12                   MR. GEARREALD: Thank you, Mr. Chairman.  
13     This case has involved a great deal of data requests by  
14     all the parties, for which the Town of Hampton is grateful  
15     to the Staff, to the OCA, and to the Town of North Hampton  
16     as well for participating. An audit -- two audits  
17     actually have been conducted, as Mr. Naylor testified. A  
18     lot of exploration, as Attorney Ratigan has just  
19     commented, has occurred. A number of potential new  
20     programs, as expressed in the testimony of Mr. Welch,  
21     premarked as "Exhibit 17", the Town of Hampton has been  
22     concerned about the frequency and magnitude of rate  
23     increases. And, we feel that the WICA Program offers  
24     promise in terms of decreasing the magnitude and certainly

1 decreasing potentially the frequency of the rate cases,  
2 which may alleviate the rate shock that we -- is our major  
3 concern with respect to this particular matter coming two  
4 years, as it does, after the last increase.

5 We are not a signatory the Settlement,  
6 largely out of concern for the magnitude of the rate  
7 increases. Nevertheless, given the extensive data  
8 requests that have occurred, the audits that have  
9 occurred, our understanding of the Company's need for a  
10 better realized rate of return, we are not objecting.  
11 Thank you.

12 CHAIRMAN GETZ: Thank you.  
13 Ms. Hollenberg.

14 MS. HOLLENBERG: Thank you. One  
15 procedural note, just because I was the one who filed the  
16 Settlement Agreement on Friday. We do have a new version  
17 of the Settlement Agreement that we provided this morning  
18 that has everyone's original signatures on them, and we  
19 provided that to the Clerk.

20 The OCA does certainly appreciate the  
21 professionalism and cooperation displayed by the parties  
22 and Staff in this proceeding. We believe that the  
23 Settlement Agreement viewed in its entirety is a fair,  
24 reasonable resolution of the issues in this case. And, we

1 look forward to continue discussions about ways to promote  
2 conservation in the Seacoast area and cooperative working  
3 together with the parties and Staff in the implementation  
4 of the WICA Pilot Program. We would ask the Commission to  
5 approve the Settlement Agreement. And, we thank you for  
6 your time this morning.

7 CHAIRMAN GETZ: Thank you.  
8 Ms. Thunberg.

9 MS. THUNBERG: The Staff will not be  
10 redundant. And, thank you for your time this morning.  
11 And, everything that everyone has said in their closings  
12 thus far Staff concerns with, and we appreciate your  
13 consideration, especially of the WICA proposal that is  
14 new. And, we're looking forward to working with the  
15 Company and the parties. Thank you.

16 CHAIRMAN GETZ: Thank you.  
17 Mr. Camerino.

18 MR. CAMERINO: Thank you, Mr. Chairman.  
19 I'm not going to summarize the Settlement again, which I  
20 think has been well addressed by the witnesses. The  
21 Company, too, very much appreciates the extremely  
22 constructive participation of all of the parties and Staff  
23 in this proceeding. And, I think it really speaks very  
24 highly of the regulatory process here in New Hampshire.

1                   This case had a lot of what I'll call  
2     "creative" and somewhat unusual proposals. Maybe  
3     individually they weren't that remarkable, but together  
4     it's a lot to bite off in one rate case. And, I think  
5     some of those issues need some time to get fully fleshed  
6     out. And, I think all of the parties showed a lot of  
7     creativity and, you know, constructive approach in trying  
8     to do what we could in this docket, what we could find  
9     that we could agree upon, and leave other issues to  
10    another day. And, I think this Settlement really reflects  
11    that.

12                   The Company also is very appreciative of  
13    the participation of the municipalities in this case. I  
14    think it is markedly different from the relationship that  
15    the Commission saw in some prior cases. And, I think that  
16    reflects well on everyone. I think the Towns have made a  
17    real effort to work constructively with the Company, and  
18    vice versus, and I think that the Consumer Advocate and  
19    Staff have contributed to that through their efforts, and  
20    I think that's -- you can see that here in this case  
21    today.

22                   The last thing I want to mention, just  
23    by way of clarification, is there was a reference to the  
24    "temporary rate reconciliation", and sometimes we confuse

1       our terminology. The temporary rates in this case were  
2       effective with service rendered as of December 15, 2008,  
3       even though the level of rates did not increase until  
4       February of 2009. And, so, the reconciliation, as the  
5       Agreement says, will go back to the effective date of  
6       temporary rates, that being December 15, 2008.

7                       Thank you. And, we would request that  
8       the Commission approve the Settlement Agreement as  
9       presented.

10                      CHAIRMAN GETZ: All right. Then, thank  
11       you, everyone. We will close the hearing and take the  
12       matter under advisement.

13                      (Whereupon the hearing ended at 11:36  
14                      a.m.)

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