

**Qualifications of Donna L. McFarland**

My name is Donna L. McFarland. I am employed as the Finance Director with the Office of Consumer Advocate (OCA), where I have worked since 2011. My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301.

I joined the Office of Consumer Advocate in 2011. My responsibilities include: performing financial and other analysis of utility filings in multiple utility industries; developing discovery in order to investigate utility filings; participating in technical sessions and confidential settlement negotiations; preparing testimony and schedules for filing. My responsibilities also include participation in our Office's biennial budget process by analyzing expenditures and preparing written summaries of budget line items for use by the Consumer Advocate in presentations to the Legislative Budget Committee.

From 2007-2011 I was employed as a Financial Staff Auditor with the Audit Division of the State of New Hampshire Legislative Budget Assistant – Audit Division. In this role, I audited financial statements of Agencies, Boards, and Commissions of the State of New Hampshire in accordance with Government Auditing Standards. I was responsible for research to identify significant and relevant laws, rules, and regulations for compliance testing as well as review and documentation of financial systems and operational processes through interviews with agency personnel.

From 1999 – 2004 I was employed as a Staff Accountant with Hong Environmental in Portsmouth, NH. My primary responsibilities included working with Project Managers to develop project budgeting and ongoing project financial management. I prepared payroll for a staff of forty employees and calculated and prepared weekly, quarterly, and yearly payroll tax liability reports. I was also responsible for maintaining accounts payable and receivable for this firm with annual revenues exceeding \$7 million.

I earned a B.S. in Accounting, from Southern New Hampshire University in 2006 as well as obtained numerous continuing education credits in accounting, auditing, and finance. I attended regulatory training sponsored by New Mexico State University's Center for Public Utilities. I am currently on the Gas and Tax and Accounting committees of the National Association of State Consumer Advocates (NASUCA) on behalf of the OCA.

DW 12-085

Aquarion Water Company's Responses to Staff Data Requests—Set 3

Data Request Received: November 5, 2012  
Request No.: Staff 3-11

Date of Response: November 19, 2012  
Witness: T. Dixon

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**REQUEST:** Please provide updated permanent rate filing schedules which reflect the changes indicated in the following Staff Data Requests: 1-1, 1-11, 1-14, 1-19, 1-21, 1-22, 1-23, 1-24, 1-25, TS1-3, 2-1, 2-2, 2-5, 2-13, 2-20, 3-5, 3-6, 3-9. Please also include any other amendments to the rate filing as the Company feels is necessary resulting from its responses to other Staff, OCA, Hampton or North Hampton data requests.

**RESPONSE:** Please refer to Staff 3-11 Attachment A.

COMPUTATION OF REVENUE DEFICIENCY

Aquarion Water Company of New Hampshire, Inc.  
 Case No. DW 12-085

Test Year: Twelve Months Ended 12/31/11  
 Schedule No. A  
 Page 1 of 1

Line No.		Actual Test Year	Required Increase	Pro Forma
1				
2	1 Rate Base	\$ 21,765,919		\$ 22,320,609
3				
4	2 Rate of Return	<u>5.41%</u>		<u>7.85%</u>
5				
6	3 Income Required [L1 x L2]	<u>\$ 1,177,916</u>	<u>\$ 574,252</u>	\$ 1,752,168
7				
8	4 Adjusted net Operating Income at Present Rates			<u>1,111,072</u>
9				
10				
11	5 Deficiency			<u>\$ 641,095</u>
12				
13	6 Tax Effect*			<u>59.48%</u>
14				
15	7 Revenue Deficiency [L5 / L6]			<u>\$ 1,077,924</u>
16				
17	8 Revenues at Present Rates			<u>\$ 6,086,673</u>
18				
19	9 Proposed Revenue Increase [L7 / L8]			<u>17.71%</u>

\*Requested return of equity of 10.25%. A one percent change in requested equity return is equal to approximately \$155K in revenues calculated as follows:

Rate base	\$ 22,320,609
Change in Equity (1% x 41.26%)	<u>0.4126%</u>
Change in Operating Income	\$ 92,095
Conversion Factor	<u>1.68</u>
Change in revenue requested	<u>\$ 154,846</u>

SALARIES & WAGES

Aquarion Water Company of New Hampshire, Inc.  
 Case No. DW 12-085

Test Year: Twelve Months Ended 12/31/11  
 Schedule No. 1C  
 Page 1 of 1

Line No.	SUMMARY	ACCOUNT DISTRIBUTION									
		Source of Supply	Pumping	Treatment	Transmission & Distribution	Customer Accounting	Administrative & General	Other Income	Other Cos/ Capital	Total	
1											
2		<u>Basic Wages</u>									
3	<b>AWC of New Hampshire Employees</b>										
4											
5	Officer & Exempt - Non Union (3 F/T employees)	\$ 196,578									
6	Non- Exempt Non-Union Wages (1 F/T, 2 P/T employees)(Wages at 04/01/12)	88,417									
7	Union Employees (8 employees w/salaries effective 12/1/2011)	432,736									
8	Wage Increase effective 12/01/2012 per Union Contract (3.5%)	15,146									
9	Base Wages	\$ 732,875									
10	Standby, OT, Shift Differential wages incurred during test year	45,125									
11	Wage Increase applied to Standby, OT, Shift Differential ( 3.5%)	1,579									
12	Pro Forma Wages	\$ 779,579	\$ 25,020	\$ 100,498	\$ 24,887	\$ 204,744	\$ 22,574	\$ 293,774	\$ 1,280	\$ 106,803	\$ 779,579
13	Percent Charged to Expense	86.3%									
14	Pro Forma Wages Charged to Expense	\$ 672,776									
15											
16	Test Year Gross Wages	\$ 771,046	24,751	99,418	24,619	202,544	22,331	290,618	1,266	105,499	771,046
17	Percent Charged to Expense	86.3%									
18	Test Year Wages charged to Expense	\$ 666,547									
19	Pro Forma Adjustment	\$ 7,229	(A)	\$ 269	\$ 1,080	\$ 267	\$ 2,200	\$ 243	\$ 3,157	\$ 14	\$ 7,229
20											
21											
22											
23	<b>Svc.Co.: Test Year Wages to AWC-NH</b>										
24											
25											
26	Service Company Test Year Wages	\$ 133,937		\$ 1,020	\$ 1,823			\$ 129,232		\$ 1,862	\$ 133,937
27	Service Company Test Year Wages Charged to Expense	\$ 132,075									
28											
29											
30	Adjustment to Svc.Co. Wages to reflect April 1, 2012 Pay Increase (3%)	\$ 3,962	(B)	\$ -	\$ 31	\$ 55	\$ -	\$ -	\$ 3,877	\$ -	\$ 3,963
31											
32											
33											
34											
35	<b>Total Pro Forma Wage Adjustment</b>	\$ 11,191	(A + B)	\$ 269	\$ 1,111	\$ 322	\$ 2,200	\$ 243	\$ 7,034	\$ 14	\$ 11,192
36											
37											
38	<sup>1</sup> Calculation found in Standard Filing Requirements, Response 28.										
39	Updated as per Staff 2-7										
40											

Employee Bonus Program

Aquarion Water Company of New Hampshire, Inc.  
 Case No. DW 12-085

Test Year: Twelve Months Ended 12/31/11  
 Schedule No. 1E  
 Page 1 of 1

Line No.		
1		
2	Officer	\$ 14,625
3	Exempt - Non-Union	4,435
4	Non-Exempt - Non-Union	1,326
5		
6		\$ 20,386
7	Percent to Expense	86.3%
8		
9	Pro forma Bonus	\$ 17,593
10		
11	Test Year Bonus Charged to Expense	18,893
12		
13	Total Pro Forma Bonus Adjustment	\$ (1,300)
14		
15	Updated as per Staff 2-10	
16		
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AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: OCA 2-11 (Redacted)

Date of Response: October 10, 2012  
Witness: T. Dixon

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**REQUEST:** Has the Company performed any survey or study to evaluate the wages it pays employees compared with other similarly situated water utilities? If so, please provide a copy of the most recent survey or study.

**RESPONSE:** The Company annually reviews its external competitiveness, the prevailing rates of increases in the marketplace, and industry survey data, and engages an independent compensation consultant to complete salary studies for all levels of employees to ensure that our compensation system is aligned with the market. The results of the studies related to New Hampshire employees are provided as OCA 2-11 Attachment A (Redacted) and this attachment has been redacted since it contains confidential salary information. The Saje Study (OCA 2-11 Attachment B) provides Aquarion with industry specific reference data to compare higher level Managers and Director positions.

Based on the prevailing information received annually, the Company establishes a budget for merit and cost of living increases. The budget includes annual increases and equity adjustments to more closely align pay with the market, to recognize promotions, and to provide a general cost of living increase to the Company's union and non-union hourly workforce. The union increases will be administered as negotiated in the union contracts. To the extent a union contract is up for renewal, the Company will gather survey data and relevant market indexes to establish a basis for negotiating hourly increases for the union employees.

Generally each non-union employee is eligible for an annual increase which takes effect on April 1<sup>st</sup> of each year. Managers and Supervisors evaluate each individual based on performance, position in the salary range relative to the market, and time since last increase, and determine appropriate increases accordingly. Employees who do not receive a satisfactory performance rating, may not receive a full merit increase. Union employees receive an annual increase each December 1<sup>st</sup>.

**AQUARION - EXEMPT SALARY MATRIX**

EVALUATION DETAIL BY FACTOR (as of March 2012)

TITLE	NAME	REGION	DEPT	TOTAL POINTS	PROFILE +/-	CURRENT SALARY	SALARY STRUCTURE - 2012			NEW C/R
							MINIMUM	MIDPOINT	MAXIMUM	
VP OPERATIONS, MA & NH CUSTOMER SERVICE TEAM LEADER MANAGER, NH OPERATIONS	WALSH, J	R-1	23900	1192	+3	[REDACTED]	[REDACTED]			
	KNOWLTON, P	R-2	23900	238	0					
	MCMORRAN	R-2	23900	594	+3					
<b>TOTAL:</b>		3		2,024		[REDACTED]	[REDACTED]			
<b>AVERAGE:</b>							[REDACTED]			

**AQUARION COMPANY -- NONEXEMPT SALARY MATRIX**

TITLE	NAME	DEPT	REGION	GRADE	CONTROL POINT	WEEKLY SALARY	SALARY STRUCTURE - 2012			NEW C/R
							MINIMUM	MIDPOINT	MAXIMUM	
NH- P/T ADMINISTRATIVE ASSISTANT	ALLEN-HEMPHILL, YVONNE **	22602	R-2	5	123	[REDACTED]	[REDACTED]			[REDACTED]
NH- P/T CUSTOMER SERVICE REP	SMITH, MALISA (.50) **	22630	R-2	5	123		[REDACTED]			
OPERATIONS CLERK	HARDARDT, DONNA	22630	R-2	5	123		[REDACTED]			
<b>TOTAL:</b>	<b>3</b>				<b>369</b>		[REDACTED]			
<b>AVERAGE:</b>					<b>123</b>		[REDACTED]			

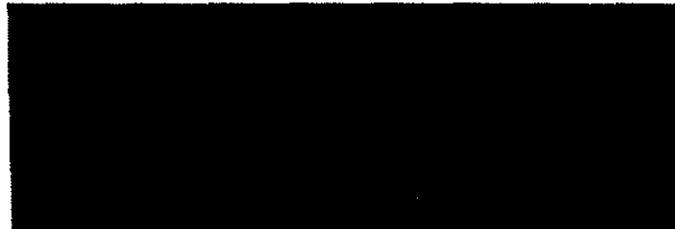
\*\* Works 20 hours pw

# 2012 INVESTOR-OWNED WATER UTILITY COMPENSATION AND BENEFITS SURVEY

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Data Effective as of July 1, 2012

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**Saje**  
CONSULTING GROUP, INC.

305 Cinnabar Lane  
Suite #100  
Yardley, PA 19067  
Phone: (215) 493-1647  
Fax: (215) 493-2731

**2012 INVESTOR-OWNED WATER UTILITY  
COMPENSATION and BENEFITS SURVEY**

**Saje Consulting Group, Inc.  
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**2012 INVESTOR-OWNED WATER UTILITY  
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## 2012 INVESTOR-OWNED WATER UTILITY COMPENSATION and BENEFITS SURVEY

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### *SURVEY OVERVIEW*

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We are pleased to present the nineteenth annual **Investor-Owned Water Utility Compensation and Benefits Survey**. A total of 8 organizations participated in the survey, providing data for 160 employees in 30 different positions.

Saje maintains all compensation data in absolute confidence and data are arrayed in such a manner as to not violate that confidence. An alphabetical listing of participating companies and the individuals providing the data is included.

The survey report is organized in the following manner:

- Alphabetical listing of the participants and contacts;
- Profile of the participating companies;
- List of survey positions;
- Guidelines on how to utilize the survey results;
- Summary of compensation data for surveyed positions including:
  - Base salary, target bonus percent, bonus, total cash compensation, long-term incentive and total direct compensation (i.e., total cash + long-term incentive) are reported by percentile distribution as well as trend line formulas;
  - Salary range information

The survey was conducted in the following manner;

- Survey positions were selected based upon input from NAWC members as well as follow-up discussions with survey participants;
- Survey questionnaires were mailed in mid June;
- Each questionnaire was reviewed by a member of Saje's professional staff prior to entering the responses into the database. Survey participants were contacted directly to review specific responses for clarification as needed;
- Computer programs were used to sort the survey data and to calculate the averages, percentiles, regression lines and prevalence. The information in this report reflects compensation and incentive practices of each participating company as of **July 1, 2012**.

We wish to express our appreciation to all the companies who participated in the twenty-first annual **Investor-Owned Water Utility Compensation and Benefits Survey**. We believe the information in this report can be used to assist the participants in their compensation planning and administration.

**2012 INVESTOR-OWNED WATER UTILITY  
COMPENSATION and BENEFITS SURVEY**

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***PARTICIPANT LIST***

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<u>COMPANY</u>	<u>PRIMARY CONTACT</u>	<u>TELEPHONE</u>
Aqua America Inc.	Kelly Bonebrake – Dir of Comp. & Total Rewards	(610) 520-6415
Aquarion Water Company	Lucy Teixeira – VP Customer Services & HR	(203) 337-5986
Beckley Water Company	Matthew Stanley – Pres., CEO & Chairman	(304) 255-5121
Middlesex Water Company	Lorrie Ginegaw –VP Human Resources	(732) 638-7548
Pennichuck Corporation	Mary DeRoche – Director, Human Resources	(603) 913-2360
San Jose Water Company	Denia Leal – Director of Human Resources	(408) 279-7808
United Water	Kathy McGoldrick – Dir Comp, Benefits, & HRIS	(201) 767-2813
The York Water Company	Jeffrey Hines – President & CEO	(717) 718-2953

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***PARTICIPANT PROFILE***

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**ORGANIZATION STRUCTURE**

**Type of Organization**

<b>Business Unit</b>	<b>Reporting Relationship</b>	<b>Number of Companies</b>	<b>Percent of Companies</b>
Single, regulated	Board	2	25%
Multiple, regulated	Directly to Corporate	0	-
Multiple, regulated	Regions to Corporate	0	-
Multiple, regulated & nonregulated	Directly to Corporate	4	50%
Multiple, regulated & nonregulated	Regions to Corporate	2	25%
<b>TOTAL</b>		<b>8</b>	<b>100%</b>

**Number of Business Units**

Type of Business Unit	Number of Business Units					
	Number of Companies	Percent of Companies	Low	Average	Median	High
Regulated	8	100%	1	5	3	12
Nonregulated	6	75%	1	3	2	10

**REVENUE (\$ Millions)**

**Regulated Revenue  
(\$MM)**

Regulated Revenue	No. of Companies	% of Companies	Low	Average	Median	High
\$50MM or Less	3	37.5%	\$11.1	\$29.1	\$35.6	\$40.6
\$51MM to \$200MM	2	25%	\$91.7	\$130.4	\$130.4	\$169.1
More than \$200MM	3	37.5%	\$229.4	\$454.1	\$433	\$700
<b>TOTAL SAMPLE</b>	<b>8</b>	<b>100%</b>	<b>\$11.1</b>	<b>\$213.8</b>	<b>\$130.4</b>	<b>\$700</b>

**Nonregulated Revenue  
 (\$MM)**

Nonregulated Revenue	Number of Companies	Percent of Companies	Low	Average	Median	High
TOTAL SAMPLE	6	75%	\$2.7	\$46.5	\$10	\$240

**Total Revenue  
 (\$MM)**

Total Revenue	No. of Companies	% of Companies	Low	Average	Median	High
\$50MM or Less	3	37.5%	\$11.1	\$30	\$38.3	\$40.6
\$51MM to \$200MM	2	25%	\$102.1	\$137.6	\$137.6	\$173.1
More than \$200MM	3	37.5%	\$239	\$541.3	\$673	\$712
TOTAL SAMPLE	8	100%	\$11.1	\$248.7	\$137.6	\$712

**CUSTOMERS**

Customers	No. of Companies	% of Companies	Low	Average	Median	High
Less than 100,000	3	37.5%	22,920	39,918	34,095	62,738
100,000 to 250,000	3	37.5%	105,000	183,833	210,000	236,500
250,000 & More	2	25%	770,000	866,500	866,500	963,000
<b>TOTAL SAMPLE</b>	<b>8</b>	<b>100%</b>	<b>22,920</b>	<b>300,532</b>	<b>157,500</b>	<b>963,000</b>

**NET UTILITY PLANT (Assets in \$Millions)**

Net Utility Plant	Number of Companies	Percent of Companies	Low	Average	Median	High
Less than \$300MM	3	37.5%	\$24.3	\$154.6	\$161.3	\$278.3
\$301MM to \$800MM	3	37.5%	\$422.2	\$633.8	\$723	\$756.2
More than \$800MM	2	25%	\$2,560.0	\$3,086	\$3,086	\$3,612
<b>TOTAL SAMPLE</b>	<b>8</b>	<b>100%</b>	<b>\$24.3</b>	<b>\$1,067.2</b>	<b>\$572.6</b>	<b>\$3,612</b>

**PUMPAGE (Billions of Gallons Pumped)**

Pumpage	No. of Companies	% of Companies	Low	Average	Median	High
Less than 10 BGP	3	37.5%	3.3	5.0	4.9	6.7
11 to 50 BGP	3	37.5%	17.9	33.3	36	46
More than 50 BGP	2	25%	98	101.5	101.5	105
<b>TOTAL SAMPLE</b>	<b>8</b>	<b>100%</b>	<b>3.3</b>	<b>39.7</b>	<b>27.0</b>	<b>105</b>

**EMPLOYEES**

**Classification**

Type	Low	Average	Median	High
Exempt	16	174	92	560
Nonexempt	34	256	95	1,001
Union	0	223	49	798

**Regulated Employees**

Total Employees	No. of Companies	% of Companies	Low	Average	Median	High
Less than 200	3	37.5%	54	88	103	106
200 to 400	3	37.5%	290	311	296	347
More than 400	2	25%	1,125	1,583	1,583	2,040
<b>TOTAL SAMPLE</b>	8	100%	54	545	293	2,040

**Nonregulated Employees**

Total Employees	No. of Companies	% of Companies	Low	Average	Median	High
<b>TOTAL SAMPLE</b>	6	75%	0	107	3	766

**Total Employees**

<b>Total Employees</b>	<b>No. of Companies</b>	<b>% of Companies</b>	<b>Low</b>	<b>Average</b>	<b>Median</b>	<b>High</b>
<b>Less than 200</b>	3	37.5%	54	88	104	106
<b>200 to 400</b>	3	37.5%	290	325	300	385
<b>More than 400</b>	2	25%	1,891	1,990	1,990	2,088
<b>TOTAL SAMPLE</b>	8	100%	54	652	295	2,088

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: OCA 2-13

Date of Response: October 10, 2012  
Witness: T. Dixon

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REQUEST: Reference Testimony of Troy M. Dixon (Bates p. 73). At lines 10-12, "Salaries and Wages" have increased approximately \$109,000 since DW 08-098 in order to keep pace with industry standards and retain a capable workforce and meet the Company's contractual obligations to its union employees. Please provide specifics about the "Company's contractual obligations to its union employees." When were the contracts underlying these obligations signed? What pay increases are required by these contracts?

RESPONSE: Please refer to OCA 2-13 Attachment A for the union contract. The contract is dated December 1, 2010. Please refer to Attachment A page 12 for the required pay increases.

AGREEMENT

AQUARION WATER COMPANY OF NEW HAMPSHIRE

and

UNITED STEELWORKERS  
ON BEHALF OF AMALGAMATED Local No. 8938

December 1, 2010

Effective January 1, 2011, employees will have 13 holidays (which include those specified above and Martin Luther King Jr. Day). Effective January 1, 2012, employees will have 12 holidays. If by December 31, 2011, the union does not provide the Company with the substituted holiday, (Columbus Day, Veteran's Day), then the Company will substitute Martin Luther Kind Jr. Day for Columbus Day.

In addition to the above twelve (12) holidays, one (1) floating holiday per employee may be taken. Requests for approval of the Floating Holiday are to be made by employees to their immediate supervisor with approval of Floating Holiday subject to the operating requirements of the Company.

If a holiday falls on Sunday, it will be observed on the following Monday. Holidays falling on a Saturday will be observed on the preceding Friday.

If Christmas Eve falls on a Friday, it will be observed on the previous Thursday. If it falls on a Sunday, it will be observed on the previous Friday.

Every regular employee covered by this Agreement shall be paid holiday pay equal to eight (8) hours at his regular hourly rate, provided that no such holiday payment shall be made (a) if the employee does not work on his last scheduled day of work prior to the holiday and the next scheduled day of work following the holiday unless the day off was pre-approved by the Company in advance of the absence or (b) if the employee is scheduled or required to work on a holiday and falls to work as required or scheduled.

When required to work on one of the foregoing holidays, the employee will be paid the holiday pay in addition to time and one half his regular hourly rate for all hours worked during that holiday.

When any of the above holidays falls on any of the pumping operators scheduled days off in any given work week, he shall be paid eight (8) hours for the holiday at his regular rate. For all hours worked on the above holidays, pumping operators will be paid one and one-half (1 1/2) times his pumping rate.

If a holiday falls on the pumping operators scheduled day off, he will take instead as his scheduled day off the last preceding work day prior to said off days, unless specifically requested by management to work the day prior to the scheduled off day.

Any non-shift employee shall have been deemed to have been scheduled to work on any of said holidays if he has been notified to report for work during his regularly scheduled working hours or before leaving any job continuing past the scheduled closing hours.

Part-time employees shall be paid for each holiday as covered by the above Section, an amount equal to the number of hours scheduled for such part-time employees.

### SECTION 31. VACATIONS

- (1) Regular full-time and part-time employees who have completed at least six months' of service are eligible for paid vacation time. The vacation year shall be the calendar year beginning January 1 and ending December 31. Vacation is based on years of

service completed in the given year. For example, an employee with three years of service any time during a given year will be eligible for three weeks vacation as of January 1 of that year.

- (2) Vacation time may not be carried over from year to year and must be taken in the calendar year in which it is earned. It is not within standard Company policy to pay for vacation not taken.
- (3) If a holiday falls during a vacation period, the employee is entitled to an extra vacation day at a time that is mutually agreeable to the employee and the supervisor.
- (4) While an employee's preference concerning vacation will be accommodated whenever possible, the timing of the vacation may depend upon the work schedule of the Company. All vacations must be scheduled in advance and approved by the appropriate supervisor. In addition, seniority shall be considered in scheduling vacations.
- (5) Vacation pay is computed at the employee's basic straight time hourly rate in effect at the time the vacation is scheduled, excluding shift differential or any other premium, penalty or overtime pay. Regular part-time employees' pay computed on the basis of their regularly scheduled work hours.
- (6) For the benefit of employees requiring limited time off for personal business, the Company will allow a maximum of one vacation day to be utilized in no less than one hour increments.
- (7) For vacations of less than one (1) week, an employee shall be paid for each day of vacation in an amount equal to his normal basic straight time hourly rate of pay multiplied by the number of normal scheduled hours for that day.
- (8) The Company shall, upon receipt of a written request by the employee, pay an employee in advance for the period of his vacation. The employee shall receive his vacation pay on his last scheduled work assignment preceding his vacation period. However, the written request must be made at least two (2) paydays prior to the beginning of the actual vacation period.
- (9) Temporary employees shall not be entitled to any vacation benefits.
- (10) If an accident or illness occurs during an employee's vacation period, the remaining portion of the vacation cannot be cancelled, except when an employee is hospitalized. The employee shall not be entitled to any additional benefits in the form of sick leave pay for the balance of the vacation period. If an employee becomes entitled to bereavement pay under the Death In Family provision of this contract while on vacation, those dates will be counted toward bereavement and not vacation.
- (11) Employees recalled from layoff shall not be entitled to any vacation in the calendar year of recall.
- (12) The following vacation schedule shall apply:

<u>SERVICE</u>	<u>VACATION ALLOWANCE</u>
6 months	1 week (must have started by 6/22)
1 year	2 weeks (must have started by 12/13)
2 years	2 weeks and 1 day
3 years	2 weeks and 2 days
4 years	2 weeks and 3 days
5 years	3 weeks
6 years	3 weeks and 1 day
7 years	3 weeks and 1 day
8 years	3 weeks and 2 days
9 years	3 weeks and 2 days
10 years	3 weeks and 3 days
11 years	3 weeks and 4 days
12 years	4 weeks
13 years	4 weeks

14 years	4 weeks
15 years	4 weeks and 1 day
16 years	4 weeks and 1 day
17 years	4 weeks and 2 days
18 years	4 weeks and 2 days
19 years	4 weeks and 3 days
20 years	4 weeks and 3 days
21 years	4 weeks and 4 days
22 years or more	5 weeks

- (13) Vacation not taken in the calendar year shall be forfeited unless the failure of the employee to take his vacation is the result of specific request by Management or because of sick leave preventing the scheduling of all or any part of his vacation within the calendar year. If any employee has been required by Management to forego all or any part of his vacation or is unable to take all or part of his vacation due to an illness and the Company does not provide a substitute period before December 31, the vacation maybe carried over to the following year; however, the vacation carried over will be scheduled by the Company in January or immediately upon returning to work from sick leave.
- (14) An employee who is laid off, resigns, dies, retires, is discharged or otherwise terminated from employment before taking all or part of the total number of vacation days he was entitled to for that year shall receive vacation pay in accordance with paragraph 5 above for the unused vacation days.

#### SECTION 32. PERFORMANCE APPRAISALS, COMPANY GIFTS, AWARDS AND INCENTIVE PROGRAMS

The Company may in its discretion establish, abolish, implement and modify a performance appraisal program. Such a program may include, among other things, the discussion of job responsibilities for the purpose of identifying and correcting weaknesses, encouraging and recognizing strengths and discussing positive, purposeful approaches to meeting goals. The purpose of the appraisal is not for disciplinary purposes. The Company also shall have the absolute right to give employees gifts at Christmas, or at any other time of the year, to make awards to employees in recognition of lengthy employment or exceptional performance, or for other reasons; or to install incentive type programs. The Company shall likewise have the right, in its sole discretion, to refrain from granting such gifts, awards, or programs or to discontinue any such practice or policy at any time.

#### SECTION 33. TEMPORARY ASSIGNMENT

The Company shall have the right to transfer employees temporarily. If regular employees are temporarily transferred from the classification in which they are employed regularly to another classification paying a lower wage, there shall be no reduction in wages; and if employees are temporarily transferred to other jobs or department paying higher hourly wages, they shall receive such higher rates while so employed. The Company may assign employees to perform Supply Operator or Working Foreman duties as needed. Employees will be paid at the higher rate for the period of time assigned to those duties. The General Foreman position will not be filled on a temporary basis by a union employee during vacations, illness or other leave.

#### SECTION 34. MEAL ALLOWANCES

- (1) The Company agrees that when an employee remains at work after completion of his regular work day for unscheduled overtime work, he shall be entitled to a meal at each of the following intervals:

One meal at the end of the first two hours of overtime and one meal at the end of the first four-hour work interval thereafter during such overtime work.

- (2) The Company agrees that when an employee is called out after leaving for the day or is called out on his off days (except with prior notice), he shall be entitled to a meal at each of the following intervals:

One meal at the end of the first four hours of call-out time and at four hour work intervals thereafter during such work.

- (3) If an employee is called into work and works in excess of four (4) consecutive hours, the Company will reimburse that employee up to \$10.00 for a meal, at each 4 (four) hour interval so long as the employee presents a receipt for the meal and submits the expenditure in accordance with Company policy. Meal reimbursement will not be provided to employees on scheduled overtime.
- (4) Meal allowances will not be provided for employees on scheduled overtime.

### SECTION 35. EQUAL EMPLOYMENT OPPORTUNITY

It is recognized by the parties hereto that the Company is an Equal Opportunity Employer whose employment policies and personnel practices are such as to insure that all employees are treated equally and that recruiting, hiring, training and promoting persons in job classifications shall be done without regard to membership in the Union, race, color, religion, sex or national origin; that decisions regarding employment and promotion shall be made so as to further the principles of equal employment opportunity; that all personnel actions, such as compensation, benefits, transfers, layoffs, return from layoff, company-sponsored training, education, tuition assistance, social and recreation programs, will be administered without regard to race, color, religion, sex or national origin.

It is hereby agreed that nothing in this contract shall be so construed as to prevent the Company in any way from adhering strictly to its equal opportunity obligations herein set forth.

In all Sections of this Agreement, any reference to gender shall mean either sex.

The Union agrees that there shall be no discrimination by the Union or its agents against any employee because of his race, color, creed, sex, age or national origin.

### SECTION 36. DURATION OF CONTRACT

This Contract shall be binding on the parties hereto, their successors and assigns, from 12:01 A.M. December 1, 2010 to Midnight November 30, 2013, and from year to year thereafter unless at least sixty (60) days before November 30, 2013 or any succeeding November 30, the Company or the Union serves written notice on the other party of its desire to change or terminate the Contract.

It is acknowledged and agreed that during the course of the negotiations preceding the execution of this Agreement on matters and issues of interest to the Union, to the Employees and to the Employer pertaining to wages, hours and conditions of employment have been fully considered and negotiated, that each party was afforded the unrestricted right to pursue and discuss proposals pertaining to wages, hours and conditions of employment, and that the understandings and agreements arrived at by the parties during the course of said negotiations are fully set forth in this Agreement.

## APPENDIX A

### Memorandum of Agreement Effective August 1, 2010

This Agreement is made and entered into this 1<sup>st</sup> day of August, 2010, by and between Aquarion Water Company (the "Company") and Utility Workers of America, A.F.L.-C.I.O., Local No. 384 and United Steelworkers of America, A.F.L.-C.I.O., Local Nos. 8938, 13492, and 2936 (the "Unions") and expires July 31, 2013.

The following changes to the benefit plans maintained by the Company for its union employees covered by these benefit plans have been agreed upon by the members of the Benefits Committee. This agreement is subject to ratification by the Unions.

#### Medical Plan

Options. The Company shall offer three Open Access medical plan options (a "high" plan and a "low" plan, both currently administered by CIGNA as well as a Health Reimbursement Account (HRA)), in accordance with the terms of the CIGNA plan document, at different Employee premium contribution levels, as described herein, except that for employees in Massachusetts and New Hampshire effective February 1, 2011, the Company shall offer only the Tufts Health Care "high" plan, in accordance with the terms of the Tufts plan document. The Tufts plan specifies a \$500 individual/\$1,000 family deductible. The Company agrees to reimburse employees for out of pocket deductible expenses that exceed \$250 dollars for individual and \$500 for the family deductible (the first \$250 individual and \$500 family deductible must be paid by the employee). Proof of payment (Explanation of Benefits) must be submitted to the Human Resources department to substantiate the reimbursement of the expense. Maximum reimbursement may not exceed \$250 for individual and \$500 per family.

As set forth in and subject to the plan documents, each of the medical plans offered by the Company shall include prescription drug coverage and vision plan benefits (see below). See Attachment A for specific coverage information under the "high" plan option currently administered by Cigna, Attachment B for specific coverage information under the "low" plan option currently administered by Cigna, Attachment C for specific coverage information under the "HRA" plan option currently administered by Cigna and Attachment D for specific coverage information for the Tufts Plan.

#### Dental Plan

Options. The Company currently offers one dental plan option. Plan design options, which are set forth in and subject to plan documents, are summarized below. See Attachment E for specific coverage information.

	Incentive Dental PPO	Dental HMO
Deductible	\$50 individual, \$150 family (waived on preventive)	\$0
Annual maximum benefit	\$1,150 per person	None
Lifetime orthodontia	\$1,750 per person	None
In-network Coverage		
Preventive benefits	100%	100%
Minor restorative	90%	100%
Major restorative	60%	60%

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Orthodontia	50%	50%
Out-of-network Coverage		
Preventive benefits	100%	None
Minor restorative	80%	None
Major restorative and orthodontia	50%	None

Effective January 1, 2011, the below listed weekly employee premium contributions for dental coverage are effective through December 31, 2011.

2011 Rates				
Period	Employee Only	Employee + Child/Children	Employee + Spouse	Family
2011	\$1.27	\$2.38	\$2.38	\$4.00
2012	\$1.40	\$2.61	\$2.61	\$4.40
2013	\$1.53	\$2.85	\$2.85	\$4.81

**Prescription Plan**

Prescription Coverage – The Medical Plans currently offered by the Company include prescription coverage at no additional Employee premium contribution. As set forth in and subject to the plan documents, coverage levels and applicable Employee co-pays follow "high", "low", HRA and Tufts plan options as set forth in Attachments A, B, C and D.

**Vision Plan**

Vision Coverage – The Medical Plans currently offered by the Company include vision coverage, as set forth in and subject to the plan documents (see Attachment F), at no additional Employee premium contribution, although employee co-pays may apply.

**Employee Premium Contributions**

Effective January 1, 2011, employees will contribute 9% of the costs of the medical plan (which includes prescription and vision benefits) for the "high" plan option, 8.5% for the "low" plan option and 8.5% for the HRA Plan Option. The below listed weekly Employee premium contributions for medical coverage, which includes vision and prescription coverage, and dental plans are effective through December 31, 2011. At the beginning of each subsequent calendar year (January 1, 2012 and January 1, 2013) employees will contribute 9% and 10% respectively for the "high" plan option and 8.5% and 9.5% for the "low" plan and HRA option.

**Weekly Employee Premium – "High" Plan (CIGNA)**

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	\$10.95	\$18.62	\$20.48	\$34.39

Memorandum of Agreement

**Weekly Employee Premium – "Low" Plan (CIGNA)**

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	\$9.85	\$16.75	\$18.43	\$30.94

**Weekly Employee Premium – "HRA" Plan (CIGNA)**

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	\$8.86	\$15.90	\$17.88	\$26.47

**Weekly Employee Premium – "High" Plan (Tufts)**

Coverage	Employee Only	Employee + Child/Children	Employee + Spouse	Family
Medical Only	\$12.21	\$24.43	\$31.75	\$38.72

**Weekly Opt Out Payback**

Employees who opt out of the following insurance coverages will receive the following opt out incentive each week, depending on the individual election (note that opting out of "medical only" means an employee has opted out of medical, prescription and vision benefits).

Plan	Employee Only	Employee + 1	Employee + 2 or More
Medical Only	\$14.49	\$21.31	\$37.30
Dental Only	\$1.61	\$2.37	\$4.14
Med + Dental	\$16.10	\$23.68	\$41.44

Employees who opt out may do so only during open enrollment each year and to be eligible must both provide current proof of other insurance from a source other than the Company and execute a waiver form provided by the Company. The proof shall evidence coverage for at least the Employee, and, if the Employee seeks an "Opt Out Payback" for a greater level of coverage, the proof shall also include evidence of coverage for those individuals, who may also be required to execute the waiver form. Employees shall receive the weekly payment only for the period for which they have provided proof of coverage at the applicable level. Employees who lose coverage at any time during the year may elect to immediately begin receiving benefits once again under the medical or dental programs; their opt out payback will be suspended or reduced, depending on the elected coverage. An employee who opts out of insurance and subsequently enrolls will be responsible for the corresponding required premium contribution.

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**Retiree Life & Medical Insurance**

Retiree Life: For the term of this Agreement: Employees hired prior to August 1, 2005 will continue to be provided with a \$10,000 life insurance benefit upon retirement. Employees hired on or after August 1, 2005 will instead be provided with a \$6,000 death benefit payable from the pension plan. Current employees who are eligible to receive the \$10,000 retiree life benefit at retirement, will not be eligible to receive the \$6,000 death benefit in addition to, or in lieu of, the \$10,000 retiree life benefit.

Retiree Medical: For the term of this Agreement: Current Employees who were hired prior to August 1, 2005 will be eligible for retiree medical, dental, prescription and vision insurance coverage as set forth below and with the Retiree premium contributions set forth below. Current Employees hired on or after August 1, 2005 will not be entitled to company-paid retiree medical, dental, prescription or vision plan coverage. Eligible Retirees under the age of 65 will be covered under the same medical, dental, prescription and vision plan design as applies to then active employees with the same medical premium contribution requirements. For eligible retirees at or over the age of 65, a Medicare supplement plan, as more fully described in the plan documents, applies, subject to compliance with applicable law (see Medicare Supplement Plan Design below).

**Medicare Supplement Plan Design for Retirees At or Over Age 65**

Deductible: \$200 individual, \$400 family  
Coinsurance out-of-pocket maximum: \$750 individual, \$1,500 family, excluding deductible  
Retiree pays 20% after deductible for medical services as outlined in the summary plan description  
Prescription coverage: \$10 co-pay for generic, \$25 for preferred brand name and \$40 for non-preferred brand name; \$20 co-pay for mail order generic 90 day supply, \$50 co-pay for mail order preferred brand name 90 day supply and \$80 for mail order non-preferred brand name 90 day supply.

For the term of this Agreement: Current retirees (those individuals who retired on or before August 1, 2005) who pay a premium for medical coverage continue at the same premium contribution formula as established when they retired.

For the term of this Agreement: Current Employees who were hired prior to August 1, 2005 and who are under the age of 65, as well as their spouses and other dependents who are under the age of 65, shall make the same premium contribution required for an active employee for retiree medical, dental, prescription and vision coverage.

Upon retirement, current Employees who were hired prior to August 1, 2005 and who are at or over the age of 65 shall pay \$26 per month for individual retiree coverage and \$26 for coverage of the spouse at or over the age of 65 (for a total of \$52 per month for an employee and spouse who are both over the age of 65). In the event a retiree is under the age of 65 and their spouse is over the age of 65, the monthly premium required will be \$26 for the individual at or over 65 plus \$47.45 for the individual under age 65, for a total of \$73.45 per month (retirees under age 65 contribute the same premium as active employees at the time of retirement). Effective January 1, 2013, the monthly contribution for retirees over the age of 65 will be \$30 per covered member per month.

**Active Life Insurance Coverage**

Company-paid life insurance and accidental death and dismemberment is increased to 2x base pay, rounded up to next \$1,000. Employees may be required to pay taxes on the value of the

Memorandum of Agreement

benefit in excess of \$50,000 in accordance with the Internal Revenue Code and according to rates established by the IRS. Portable voluntary life insurance for employee and other dependents continue.

**Pension Plan**

Retirement Plan for Employees of Aquarion Company ("Retirement Plan") – Employees hired prior to August 1, 2010 will continue to accrue pension benefits under the formula established the Retirement Plan for Employees of Aquarion Company. Union employees hired on or after August 1, 2010 will not be eligible for this benefit.

**Savings & Investment Plan**

Employees hired prior to August 1, 2010 will be eligible to continue to participate in the Savings Plan for Employees of Aquarion Water Company ("Savings Plan") at the Company match level of 75 cents for each dollar contributed up to 6% on eligible compensation (base wages, all overtime, and other compensation not excluded under the eligible compensation definition. Employees hired on or after August 1, 2010 will receive Company matching contributions at the Company match level of \$1.00 dollar for each dollar contributed up to 6% on eligible compensation (base wages, all overtime, and other compensation not excluded under the eligible compensation definition.

**Employee Assistance Program**

Counseling services program will be provided to all regular full-time union employees.

**Educational Assistance Program**

As provided in more detail in the Aquarion Water Company Education Assistance policy, the Company shall reimburse employees annually the first \$3,000 of educational expenses plus 80% of the next \$3,000 of such expenses (a maximum of \$5,400 per year) so long as the Company has, in its discretion, pre-approved the expenses and the Employee receives a grade of "C" or better. Reimbursement may be made upon proper submission to Human Resources of proof of payment and transcript with final grade of "C" or better.

**Sick Days and Sick Leave**

Employee will receive five (5) sick days for each calendar year beginning January 1, 2011. In addition, union employees may utilize up to five (5) banked sick days (if available) per calendar year through 12/31/2013. Banked sick days above the five (5) allowed for regular sick time, may only be used in coordination with short term disability benefits.

Employees will also be entitled to participate in the Company's short-term disability program, which provides income replacement for the first twenty-six (26) weeks of disability. This short-term disability program will be coordinated with an employee's banked sick days as follows: employees who are disabled in accordance with the terms of the short-term disability program will first use their banked sick days to receive one-hundred percent (100%) of pay for their leave and only after all of their available banked sick days have been used will the employees begin leave under the short-term disability program; provided, however, that the total amount of leave available from banked sick days and the short-term disability program will not exceed twenty-six (26) weeks in the aggregate. For

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: OCA 2-10

Date of Response: October 10, 2012  
Witness: T. Dixon

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**REQUEST:** Reference Troy M. Dixon Testimony (Bates p. 77). At lines 26-31 Mr. Dixon discusses the Employee Bonus Program. Please explain the employee bonus program, including how goals or targets are identified and achieved, and how bonuses are earned. Please explain whether bonuses are based on financial or operational or other goals or targets. Please provide a copy of any governing documents (e.g., policies, procedures) concerning the Employee Bonus Program.

**RESPONSE:** Please refer to OCA 2-10 Attachment A for a copy of the Company's Employee Incentive Plan. The Employee Incentive Plan is a cash based plan covering all non-union employees. Payments are earned and paid annually based on achievement of criteria established in the Plan. The objectives of the Employee Incentive Plan are to incentivize employee behavior toward improving customer service and business performance goals and to attract and retain employees.

# **Aquarion Water Company Employee Incentive Plan**

Effective January 1, 2011.

## **Objectives**

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- To incentivize employee behavior toward customer service and business goals:
  - First and foremost, to improve customer service by tying a portion of employee compensation to customer satisfaction.
  - To enhance the linkage of compensation to our business results specifically related to service quality and product quality metrics
  
- To attract and retain employees:
  - To ensure that our compensation structure will support our ability to attract and retain employees who are focused on our customer through team goal achievement, continuous improvement of business processes and enhanced customer service delivery.

**Performance Measures (Balanced Scorecard)**

- Business Unit Performance Measures – Balanced Scorecard:
  - Threshold: The Company must be able to support the payment of incentive compensation by achieving a threshold EBITDA target for 2011.
  - If threshold EBITDA is not achieved, the employee incentive plan will not be funded.
  - If threshold EBITDA is achieved, the Team Measures, Key Employee Results (where applicable) and Individual Performance Modifier will determine the funding of the Plan.
  
- Team Measures for Service and Product Quality:
  - Accounts for 100% of Balanced Scorecard for Non-Exempt and Exempt employees per the Matrix of Target Payout.
  - Accounts for 50% of Balanced Scorecard for Directors, Vice Presidents and the President & CEO per the Matrix of Target Payout.

Critical Success Factor	Measure	Metric	2011 Targets
Service Quality	DPUC Scorecard	Ranking based on number of customer complaints to the DPUC	Top 25% of all utilities in CT
	Call center performance	Call abandonment rate	<5%
	Customer Service Complaints	Number of complaints	<2,750
	Customer Survey	Customer satisfaction results	87% (+/- 3%)
Product Quality	Product Compliance Rating	Number of violations per year	Zero (0)
	Customer Water Quality Complaints	Number of water quality complaints	<1,200
Safety	OSHA Incident Rate	OSHA Incident Rate	5.1

\* Complaints measured relate to billing, pressure, personal service and missed appointments.

**Performance Measures (Balanced Scorecard) Cont.**

- Key Employee Results for Service and Product Quality
  - Applicable only to Directors, Vice Presidents and the President & CEO per the Matrix of Target Payout.
  - Achievement of individual employee's goals and objectives, per the 2011 Key Employee Goals & Objectives, accounts for the remaining 50% of the Balanced Scorecard for Key Employees.
  
- Individual performance modifier
  - At the discretion of the CEO and compensation committee, an employee's award may be enhanced by  $\pm 25\%$ ; no award is granted if the individual employee's performance is not satisfactory.

# Matrix of Achievement

- **Minimum Financial Threshold.** Threshold EBITDA must be achieved before an employee incentive award is funded and may be approved.
  - Threshold achievement is 90% of EBITDA and provides funding for the employee incentive award payment

Threshold	Meets 90% of target EBITDA to fund awards	Payment up to 150% of target depending on the achievement of targets on Balanced scorecard measures
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- **Scorecard Results.** Once a minimum financial threshold is achieved, results of Balanced Scorecard measures dictate the achievement and payment of the incentive plan.
  - Threshold achievement is 90% of EBITDA and produces an award according to the following matrix:

Scorecard Results	Meets less than 50% of targets on Balanced Scorecard	Payment up to 50% of target *
	Meets 50% of targets on Balanced Scorecard	Payment 50% of target*
	Meets 75% of targets on Balanced Scorecard	Payment 100% of target*
	Meets or exceeds all targets on Balanced Scorecard	Payment up to 150% of target*

\* payment is made at the discretion and approval of the Compensation Committee

# Matrix of Target Payout: Employee Bonus Plan

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	Target Bonus %
Non-Exempt Employees	1.5%
Exempt Employees	3%
Directors	10%
Vice Presidents	20 - 30%
President & CEO	60%

## **Time and Form of Payment of Bonuses**

- Bonuses payable under the Employee Incentive Plan for any year will not be determined until after the close of such year.
- If an employee has remained continuously employed through the year for which a bonus is payable, any bonus payable for such year will vest on December 31<sup>st</sup> of that year and be paid to the employee in a lump sum between January 1<sup>st</sup> and March 15<sup>th</sup> of the next succeeding year.
- If an employee terminates employment for any reason on or before December 31<sup>st</sup> of a year for which a bonus would otherwise be payable, the employee will forfeit any and all rights to such bonus immediately upon termination of employment. Notwithstanding the foregoing, the Compensation Committee reserves the right, upon an employee's termination of employment, to authorize, in its sole discretion, the payment to such terminated employee (or his or her estate in the event of the employee's death) of a pro rata portion of any bonus to which such employee would otherwise have become entitled had such employee continued employment through the end of the year for which such bonus is payable; provided, however, that in no event will the date of payment of such bonus be accelerated.

## **Administration of the Plan; Governing Law**

- The Employee Incentive Plan shall be administered under the direction of the CEO and the Compensation Committee. The Compensation Committee may make such rules and other terms and conditions for the conduct and administration of the Plan as it shall think fit and may amend the Plan, provided, that, no such amendment shall adversely affect the right of any employee to receive payment under the Plan of a vested bonus. Any dispute regarding the interpretation of the Plan or the terms and conditions of participation or the calculation of the thresholds, scorecard measures or bonuses shall be determined by the Committee in its sole discretion and its decision shall be final and binding on all persons.
- All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan will be determined in accordance with the laws of the State of Connecticut without giving effect to the conflict of laws principles thereof. Anything in this Plan to the contrary notwithstanding, the terms of this Plan shall be interpreted and applied in a manner consistent with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the Treasury Regulations thereunder so as not to subject an employee participating in the Plan to the payment of any tax penalty or interest which may be imposed by Section 409A of the Code and the Company shall have no right to make any payment under this Plan except to the extent such action would not subject an employee to the payment of any tax penalty or interest under Section 409A of the Code. It is intended that payments made under this Plan on or before the 15th day of the third month following the end of the employee's first taxable year in which the right to the payment is no longer subject to a substantial risk of forfeiture shall be exempt from compliance with Section 409A of the Code pursuant to the exception for short-term deferrals set forth in Section 1.409A-1(b)(4) of the Treasury Regulations.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 3

Data Request Received: November 1, 2012  
Request No.: OCA 3-19

Date of Response: November 19, 2012  
Witness: T. Dixon

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REQUEST: Reference Company's response to data request OCA 2-25. Please provide a copy of the Company's policy or policies on 401k matching.

RESPONSE: See below for the Company's policy on 401k matching.

**SAVINGS PLAN FOR EMPLOYEES OF AQUARION WATER COMPANY  
MATCHING CONTRIBUTIONS**

**Matching Contribution.** For non-union employees hired after October 1, 2009 and for union employees hired after January 1, 2011, you shall be entitled to a matching contribution equal to 100% of the amount of your salary reduction contributions. In applying this percentage, however, only salary reduction contributions up to 6% of your eligible compensation will be considered.

For non-union employees hired prior to October 1, 2009 and for union employees hired prior to January 1, 2011, you shall be entitled to a matching contribution equal to 75% of the amount of your salary reduction contributions. In applying this percentage, however, only salary reduction contributions up to 6% of your eligible compensation will be considered.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 3

Data Request Received: November 1, 2012  
Request No.: OCA 3-20

Date of Response: November 19, 2012  
Witness: T. Dixon

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**REQUEST:** Reference Harry C. Hibbard's testimony (Bates p.21, lines 6-7), the Company's response to date request OCA 2-25, and Schedule No. 1D (Bates p.116, line 15). In Mr. Hibbard's testimony he states, "In addition, we have eliminated the Company's pension plan for new employees in an attempt to mitigate those rising costs." Please reconcile this testimony with the increase in pension costs as well as with Company's matching of 401k contributions at a rate of 100% instead of the 75% used for matching pension contributions. Please clarify whether or not a 401k was available to non-union employees before October 1, 2009, and union employees before January 1, 2011 (i.e., did the Company only have a pension plan for employees before these dates?). If a 401k was available to employees before these dates, what was the Company matching percentage for employee contributions?

**RESPONSE:** The Company had both a pension and 401k plan available to non-union employees prior to October 1, 2009 and union employees hired prior to January 1, 2011. Employees hired prior to these dates receive a 75% match in 401(k) contributions up to 6% of their pay, and are still eligible for a pension. Non-union employees hired subsequent to October 1, 2009 and union employees hired subsequent to January 1, 2011 receive a 100% match in 401(k) contributions up to 6% of their pay, but are not eligible for a pension. This policy became effective on June 1, 2011.

The Company's elimination of its pension plan for certain employees while increasing the matching percentage for their 401k contributions is a long-term strategy to reduce pension expense while remaining competitive in the labor market. Rising pension and post-retirement benefit expenses are impacted by numerous circumstances outside of Aquarion's control, including changes in the financial markets. The level of expense incurred by the Company for its pension plan is due to these factors, even though the number of individuals participating in the plan has not changed. By contrast to the pension plan, Aquarion can directly control the level of its 401k match, resulting in more control over Company expenses.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: OCA 2-26

Date of Response: October 10, 2012  
Witness: T. Dixon

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REQUEST: Reference Troy M. Dixon Testimony (Bates p. 77). At lines 21-23, Mr. Dixon states, "Pro forma life insurance and long term disability expense are based on multiples of base wages, as shown on Schedule 1C, times the current insurance rates." Do employees contribute to the Life or Long Term Disability Insurance? If so, how much?

RESPONSE: Employees do not contribute to life or long-term disability insurance.

**Aquarion Water Company of New Hampshire, Inc.**

**Analysis of Salary and Wage Schedule No. 1C  
 Dockets DW 12-085 and DW 08-098**

	A	B	C=A-B	D= C / B
	12mo Ended 12/31/11 <sup>1</sup>	12mo Ended 3/31/08 <sup>2</sup>		
<u>AWC of New Hampshire Employees</u>	<u>Basic Wages</u>	<u>Basic Wages</u>	<u>\$ Diff</u>	<u>% Diff</u>
<u>Base Wages</u>				
<u>Line</u>				
1 Officer Wages (DW 08-098)		\$ 68,160 <sup>3</sup>		
2 Exempt - Non-Union (2 F/T employees) (DW08-098)		\$ 136,995 <sup>3</sup>		
3 Officer & Exempt - Non Union (3 F/T employees) (Wages at 4/1/12)	\$ 196,576	\$ 205,155	\$ (8,579)	-4.18%
4 Non- Exempt Non-Union Wages (1 F/T, 2 P/T employees)	88,417	\$ 71,188	\$ 17,229	24.20%
5 Union Employees (8 employees w/salaries effective 12/1/2011)	432,736	\$ 373,922	\$ 58,814	
6 Wage Increase effective 12/01/2012 per Union Contract (3.5%)	15,146	\$ 12,211	\$ 2,935	
7 Total of Lines 5 + 6	<u>447,882</u>	<u>\$ 386,133</u>	<u>\$ 61,749</u>	15.99%
8 <b>Base Wages Total [lines 3 + 4 + 7]</b>	<u>\$ 732,875</u>	<u>\$ 662,476</u>	<u>\$ 70,399</u>	

<u>Employee Bonus Program<sup>4</sup></u>	
9 Pro forma Bonus	\$ 17,593

Amount OCA Recommends Shared between Aquarion Water Company of New Hampshire Shareholders and Customers	50% / 50%	
		<u>50%</u>
Total Amount of Wage Increase since the last rate case DW 08-098 [line 8 Col. C]	\$ 70,399	\$ 35,199
Total Amount of Pro forma Bonus [line 9]	\$ 17,593	\$ 8,797
<b>Reduction in the Company's Revenue Requirement</b>		<u><b>\$ 43,996</b></u>

<sup>1</sup> Reference Company's data response to Staff 3-11 Attachment A page 12 [See DLM-2]

<sup>2</sup> Reference Aquarion docket DW 08-098 "Schedules-Shutt" filed on 8/29/08, Excerpt of Schedule No. 1C

<sup>3</sup> Note: Schedule 1C in docket DW 08-098 presented the Officer (\$68,160) and Exempt-Non-Union (\$136,995) wages separately, whereas Schedule 1C in docket DW 12-085 did not. In order to calculate the wage difference dollar amount and percentage amount between the two dockets I added the Officer and Exempt-Non-Union wages from docket DW 08-098 Schedule 1C together and then performed the calculation as noted.

<sup>4</sup> Reference Schedule 1E in Staff 3-11 Attachment A page 14 of 68 (See DLM-2)



THE COMMONWEALTH OF MASSACHUSETTS  
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October 1, 2012

SENT VIA ELECTRONIC FILING

The Honorable Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Re: Docket Nos. EL11-66-000  
EL11-66-001

Martha Coakley, Attorney General of the Commonwealth of Massachusetts et. al.  
v. Bangor Hydro-Electric Company et. al.

Dear Secretary Bose:

Enclosed for filing in the above-referenced dockets please find the Complainants' Direct Case which consists of the testimony of J. Randall Woolridge, Ph. D along with supporting schedules and exhibits and the testimony of Frederick R. Plett along with supporting exhibit.

Copies of this document have been sent to the persons named on the Service List in this proceeding. Thank you for your assistance in this matter and please feel free to contact the undersigned should you require anything further.

Very Truly Yours,

For the Complainants, by,

/s/ Patrick J. Tarmey

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Cc: Hon. Michael J. Cianci, Jr.  
Service list

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Martha Coakley, Massachusetts Attorney General;  
Connecticut Public Utilities Regulatory Authority;  
Massachusetts Department of Public Utilities; New  
Hampshire Public Utilities Commission; Connecticut Office  
of Consumer Counsel; Maine Office of the Public  
Advocate; George Jepsen, Connecticut Attorney General;  
New Hampshire Office of Consumer Advocate; Rhode  
Island Division of Public Utilities and Carriers; Vermont  
Department of Public Service; Massachusetts Municipal  
Wholesale Electric Company; Associated Industries of  
Massachusetts; The Energy Consortium; Power Options,  
Inc.; and the Industrial Energy Consumer Group,

Complainants

v.

Docket Nos. EL11-66-000  
EL11-66-001

Bangor Hydro-Electric Co.; Central Maine Power Co.; New  
England Power Co. d/b/a National Grid; New Hampshire  
Transmission LLC d/b/a NextEra; NSTAR Electric and Gas  
Corp.; Northeast Utilities Service Co.; The United  
Illuminating Co.; Unitil Energy Systems, Inc. and Fitchburg  
Gas and Electric Light Co.; and Vermont Transco, LLC

Respondents

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## TESTIMONY OF J. RANDALL WOOLRIDGE

**I. SUMMARY OF DIRECT TESTIMONY OF J. RANDALL WOOLRIDGE, Ph. D**

In 2006, the Federal Energy Regulatory Commission (“Commission”) established a base-level ROE for New England Transmission Owners (“NETOs”) of 11.14%. Since that time, the bubble in the housing market and the subsequent financial crisis and economic recession have had a profound impact on financial institutions and capital markets. In response, the U.S. government has employed aggressive fiscal and monetary policies. In the capital markets, one impact has been the lower yields on the obligations of the U.S. Treasury. Yields on utility bonds have also declined significantly. Based on current market data and an equity cost rate study, Dr. J. Randall Woolridge concludes that the base Return on Equity (“ROE”) set in 2006 is no longer just and reasonable.

Dr. Woolridge applied the Discounted Cash Flow Model (“DCF”) to a proxy group of publicly-held electric utility companies (“Electric Proxy Group”). The Electric Proxy Group started with thirty-four companies. Consistent with the Commission’s recent precedent, this group is comprised of utilities throughout the U.S., and is not limited to the Northeast. Eliminating low-end and high-end outliers, pursuant to Commission precedent, yields a final proxy group of twenty-eight companies. Dr. Woolridge presents the DCF results using the Commission’s approach and calculates the mean, midpoint, and median of the implied costs of equity of this group to arrive at a just and reasonable ROE for the NETOs.

Based on economic data and Dr. Woolridge’s DCF analysis, the current base ROE of 11.14% is excessive. In light of changed economic conditions and his DCF analysis, Dr. Woolridge concludes that the just and reasonable base ROE for the NETOs is 9.0%.

1 financial crisis in early 2009, due to tightening in credit markets, which increased  
2 corporate bond yields and the “flight to quality,” which decreased treasury yields. The  
3 differential subsequently declined and has been in the 2.5% to 3.5% range over the past  
4 three years.

5 As previously noted, the risk premium is the return premium required by investors  
6 to purchase riskier securities. The risk premium required by investors to buy corporate  
7 bonds is observable based on yield differentials in the markets. The equity risk  
8 premium is the return premium required to purchase stocks as opposed to bonds. The  
9 equity risk premium is not readily observable in the markets (as are bond risk  
10 premiums) since expected stock market returns are not readily observable. As a result,  
11 equity risk premiums must be estimated using market data. There are alternative  
12 methodologies to estimate the equity risk premium, and these alternative approaches  
13 and equity risk premium results are subject to much debate. One way to estimate the  
14 equity risk premium is to compare the mean returns on bonds and stocks over long  
15 historical periods. Measured in this manner, the equity risk premium has been in the  
16 5% to 7% range. However, studies by leading academics indicate the forward-looking  
17 equity risk premium is actually in the 4.0% to 5.0% range. These lower equity risk  
18 premium results are in line with the findings of equity risk premium surveys of CFOs,  
19 academics, analysts, companies, and financial forecasters.

20 **Q. PLEASE REVIEW THE FINANCIAL CRISIS AND THE RESPONSE OF THE**  
21 **U.S. GOVERNMENT.**

22 A. The mortgage crisis, subprime crisis, credit crisis, economic recession and the  
23 restructuring of financial institutions have had tremendous global economic  
24 implications. This issue first surfaced in the summer of 2007 as a mortgage crisis. It  
25 expanded into the subprime area in 2008 and led to the collapse of certain financial  
26 institutions, notably Bear Stearns, in the first quarter of 2008. Commodity and energy  
27 prices peaked and began to decline in the summer of 2008, as the crisis in the financial  
28 markets spread to the global economy. The turmoil in the financial sector peaked in  
29 September of 2008 with the failure of several large financial institutions, Bank of  
30 America’s buyout of Merrill Lynch, and the government takeover of Fannie Mae and  
31 Freddie Mac.

1           In response to the market crisis, the Federal Reserve (“Fed”) took extraordinary  
2 steps in an effort to stabilize capital markets. Most significantly, the Fed opened its  
3 lending facilities to numerous banking and investment firms to promote credit markets.  
4 As a result, the balance sheet of the Federal Reserve grew by hundreds of billions of  
5 dollars in support of the financial system. The federal government took a series of  
6 measures to shore up the economy and the markets. The Troubled Asset Relief  
7 Program (“TARP”) was aimed at providing over \$700 billion in government funds to  
8 the banking system in the form of equity investments. The federal government spent  
9 billions bailing out a number of prominent financial institutions, including AIG,  
10 Citigroup, and Bank of America. The government also bailed out other industries, most  
11 notably the auto industry. In 2009, President Obama signed into law his \$787 billion  
12 economic stimulus, which included significant tax cuts and government spending aimed  
13 at creating jobs and turning around the economy.

14           The spillover of the financial crisis to the economy has been ongoing. According  
15 to the National Bureau of Economic Research (“NBER”), the economy slipped into a  
16 recession in the 4<sup>th</sup> quarter of 2007. The NBER has indicated that the recession ended  
17 in the 2<sup>nd</sup> quarter of 2009. Nonetheless, the recovery of the economy has lagged behind  
18 the recoveries from previous recessions. Since the 2<sup>nd</sup> quarter of 2009, economic  
19 growth has only been 2.4% per year, and just 1.8% and 1.5% in the first two quarters of  
20 2012. Furthermore, the muted economic recovery in the U.S. has been hindered by  
21 global economic concerns, especially the continuing fiscal and monetary issues in  
22 Europe and the slowing economic growth in China. As a result, the U.S. is still saddled  
23 with relatively high unemployment, large government budget deficits, continued  
24 housing market issues, and uncertainty about future economic growth.

25           In summary, the Federal Reserve and the U.S. government have taken  
26 extraordinary actions and committed great sums of money to rescue the economy,  
27 certain industries, and the capital markets. But the economy is still on an uncertain  
28 path.

1 **Q. PLEASE PROVIDE ADDITIONAL INFORMATION ON THE ACTIONS OF**  
2 **THE GOVERNMENT AND THEIR IMPACT ON U. S. CAPITAL COSTS.**

3 A. The yields on United States Treasury securities have declined to levels not seen since the  
4 1950s. The yields on Treasury securities decreased significantly at the onset of the  
5 financial crisis and have remained at very low levels. The decline in interest rates  
6 reflects several factors, including: (1) the “flight to quality” in the credit markets as  
7 investors sought out low risk investments during the financial crisis; (2) the very  
8 aggressive monetary actions of the Federal Reserve, which were aimed at restoring  
9 liquidity and faith in the financial system as well as maintaining low interest rates to  
10 boost economic growth; and (3) the continuing slow recovery from the recession.

11 The credit market for corporate and utility debt experienced higher rates due to the  
12 credit crisis. The short-term credit markets were initially hit with credit issues, leading  
13 to the demise of several large financial institutions. The primary indicator of the short-  
14 term credit market is the 3-month London Interbank Offered Rate (“LIBOR”). LIBOR  
15 peaked in the third quarter of 2008 at 4.75%. It has since declined to below 0.5% as the  
16 short-term credit markets opened up and U.S. Treasury rates have remained low. The  
17 long-term corporate credit markets tightened up during the financial crisis, but have  
18 improved significantly since 2009. Interest rates on utility and corporate debt have  
19 declined to historically low levels.

20 Panel A of page 2 of Exhibit SC-106 provides the yields on A, BBB+, and BBB  
21 rated public utility bonds. These yields peaked in November 2008 and have since  
22 declined by about 400 basis points. For example, the yields on ‘A’ rated utility bonds,  
23 which peaked at about 7.75% in November of 2008, have declined to 3.75% as of  
24 September, 2012. Panel B of page 2 of Exhibit SC-106 provides the yield spreads on  
25 A, BBB+, and BBB rated public utility bonds relative to Treasury bonds. These yield  
26 spreads increased dramatically in the third quarter of 2008 during the peak of the  
27 financial crisis and have decreased significantly since that time. For example, the yield  
28 spreads between 30-year U.S. Treasury bonds and ‘A’ rated utility bonds peaked at  
29 over 3.50% in November of 2008, declined to 1.0% in early 2012, and have since  
30 increased to about 1.25%.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Technical Session Requests—Set 1

Data Request Received: November 28, 2012  
Request No.: OCA Tech 1-3

Date of Response: December 7, 2012  
Witness: T. Dixon

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REQUEST: Reference the Company's response to OCA 2-11 Attachment B p.5 of 145, which discusses how the survey was conducted. Please provide the following information:

- a. How many organizations were sent a survey questionnaire?
- b. How many organizations responded?
- c. How were the participants selected?

RESPONSE:

- a. Saje Consulting Group sent the survey questionnaire to 11 organizations.
- b. On OCA 2-11 Attachment B page 4 of 145, the report mentions a total of 8 organizations participated in the survey.
- c. The organizations are all investor-owned water utilities and represent companies who had previously participated in the survey or had expressed an interest in participating in the survey.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Technical Session Requests—Set 1

Data Request Received: November 28, 2012  
Request No.: OCA Tech 1-1

Date of Response: December 7, 2012  
Witness: T. Dixon  
Page 1 of 2

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REQUEST: Reference the Company's response to OCA 2-11 Attachment A. Attachment A shows the "Exempt Salary Matrix" and the "Non-Exempt Salary Matrix". In reference to these two matrixes, please provide the following:

- a. What is the source for the information the Company receives annually?
- b. Please provide a copy of the information supporting the matrixes.
- c. Please provide an explanation on the following factors on page 1 of the attachment: "Region", "Dept", "Total Points", "Profile +/-", and "New C/R".
- d. Please provide an explanation on the following factors on page 2 of the attachment: "Dept", "Region", and "Grade"

RESPONSE: a. The source of the information is Executive Resource Group ("ERG").

b. The matrixes included in OCA 2-11 Attachment A are provided to the Company by ERG. The comparison group as provided and utilized by ERG is attached hereto as OCA Tech 2-1 Attachment A. The Company does not receive the specific data that ERG analyzes when creating the matrixes; that data is proprietary to the Hay Group, from which ERG purchases its data, and which employs a well-established and widely applied methodology.

c. "Region" refers to the various regions where the Company has employees located. The Company has two regions: R-1 in Fairfield County, Connecticut and R-2, which includes Massachusetts and New Hampshire.

"Department" is the home department within the Company that the position reports into.

"Total Points" refers to how the job is graded to come up with the midpoint. Each position is assigned points based on "Accountability", "Know How" and "Problem Solving" skills required to perform that job.

"Profile+/-" refers to a method for checking the soundness of an evaluation by considering the profile of the job. This is done by testing the distribution of the three elements, Know How, Problem Solving and Accountability in the evaluation of each job to see if it makes sense, and relates to the nature of the role.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Technical Session Requests--Set 1

Data Request Received: November 28, 2012  
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Date of Response: December 7, 2012  
Witness: T. Dixon  
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"New C/R" is mathematically computed by dividing the employee's actual salary compared to the midpoint for the job.

d. See explanation above for Department and Region. Grade is based on the total points (as referenced above).

2011/2012 COMPARATOR GROUP -- EXEMPT POSITIONS	
UNDERLYING PARTICIPANTS (n = 32)	
AMERICAN WATERWORKS SERVICE **	LOUISVILLE WATER **
AQUA AMERICA **	MEMPHIS WATER **
ARCH CHEMICALS	MERCK - Water Management Division
AT & T (SBC / SNET) **	NEW JERSEY TRANSIT **
BAYER / MILES	NEW YORK ISO **
CENDANT	NEW YORK POWER AUTHORITY **
CHEMTURA	NORELCO CONSUMER PRODUCTS
CIGNA	OLIN
CITIZENS GAS & COKE **	PHILIP MORRIS USA
CONNECTICUT WATER **	PITNEY BOWES
COOPER INDUSTRIES	PORT AUTHORITY OF NY & NJ **
DANNON	PRAXAIR
GENERAL ELECTRIC	RHODIA - Basic Chemicals
HUHTAMAKI (Chinet)	UNITED WATER **
INTERNATIONAL PAPER	UST (ALTRIA)
LONG ISLAND POWER AUTHORITY **	VERIZON COMMUNICATIONS **
<p>** indicates regulated business and / or utility</p> <p>regulated organizations -- n = 14 (44%)</p> <p>non-regulated organizations -- n = 18 (56%)</p>	

SAJE Consulting Group
2011 Investor-Owned Water Utility Survey
Aqua America Inc.
Aquarion Water Company
Middlesex Water Company
Pennichuck Water
San Jose Water Company
Suburban Water Systems
United Water
The York Water Company

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 3

Data Request Received: November 1, 2012  
 Request No.: OCA 3-12

Date of Response: November 19, 2012  
 Witness: T. Dixon

**REQUEST:** Reference Company's response to data request OCA 2-24. Please provide the percentage of the Service Company's wages that are allocated or directly charged to other affiliates of Aquarion Water Company, by affiliate.

**RESPONSE:** Service Company wages as reflected on Schedule 1C are directly charged to New Hampshire from the Company's affiliates. Please refer to Column A below. Certain salaries are allocated to the New Hampshire affiliate (AWC-NH) as part of the shared Customer Service, IT and Corporate Expenses on Schedules 1S, 1T and 1R respectively. Refer to Columns C, D and E below. In summary, approximately 0.9% of the salaries of AWC-CT are included in the revenue requirement of AWC-NH.

(in \$000s)

A Company	B AWC-CT Wages Charged to:	C Shared Customer Service <sup>2</sup>	D Shared IT <sup>3</sup>	E Corporate Allocation <sup>4</sup>	F Total	G Total %
AWC-CT	\$19,519	(\$218)	(\$96)	63	\$19,268	96.5%
AWC-MA	235	176	65	7	483	2.4%
AWC-NH	113	42	31	3	189	0.9%
Aquarion Company	74			(74)	0	0.0%
Homeowner Safety Valve	37			1	38	0.2%
<b>Total</b>	<b>\$19,978</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$19,978</b>	<b>100.0%</b>

1. Test year labor of \$132k as per Schedule 1C reflects AWC-CT labor of \$113k above plus \$18k of labor from AWC-MA.
2. AWC-NH portion reflected as test year expense as per Schedule 1S.
3. AWC-NH portion reflected as labor component of test year expense as per Schedule 1T
4. Labor of \$74k is reflected in test year labor and benefit line as per Schedule 1R.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Technical Session Requests—Set 1

Data Request Received: November 28, 2012  
Request No.: OCA Tech 1-5

Date of Response: December 7, 2012  
Witness: T. Dixon  
Page 1 of 2

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REQUEST: Reference the Company's OCA 3-12, footnote #1. The response states that \$18,000 labor from AWC-MA was allocated to AWC-NH. During the Technical Session on 11/28/12, the Company stated that the costs were related to an employee providing support to Harry Hibbard and John Walsh. Please provide the following information:

- a. What types of costs are included in the \$18,000?
- b. A description of the types of services provided by AWC-MA to AWC-NH in 2011 and 2012?
- c. Please provide the job titles and description of the responsibilities of the individual(s) related to providing each type of service to AWC-NH.
- d. The details of how the costs related to the services provided by AWC-MA to AWC-NH are allocated to AWC-NH and any other affiliate of AWC.
- e. Are these services consistently provided each year?
- f. Does AWC-MA have a service agreement with AWC-NH, or any other affiliate defining the type of services and how the costs are allocated to NH?

RESPONSE: a. The \$18,000 includes labor dollars that are directly charged to New Hampshire.

b. The individual, Ronit Goldstein, provides administrative and technical support services to the Vice President of Operations in matters relating to Aquarion Water Company of Massachusetts and Aquarion Water Company of New Hampshire. Mrs. Goldstein was promoted in 2012 to Community Relations Manager.

c. The Community Relations Manager is responsible for promoting Company initiatives among key constituents such as customers, the general public, community associations and local and state elected officials. In addition, this position provides administrative and technical support services to the Vice President of Operations and staff of Aquarion Water Company of Massachusetts and New Hampshire.

d. Costs are directly charged to Aquarion Water Company of New Hampshire.

e. Yes.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Technical Session Requests—Set 1

Data Request Received: November 28, 2012  
Request No.: OCA Tech 1-5

Date of Response: December 7, 2012  
Witness: T. Dixon  
Page 2 of 2

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f. There is not a specific service agreement between Aquarion Water Company of Massachusetts and Aquarion Water Company of New Hampshire; however, the services provided between the subsidiaries follow a similar agreement as provided from Aquarion Water Company and Aquarion Water Company of New Hampshire. The service agreement is referenced at OCA 2-28 Attachment A.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to OCA Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: OCA 2-42

Date of Response: October 10, 2012  
Witness: T. Dixon

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REQUEST: Please provide fully functioning electronic copy of your most recent Cost of Service Study, with all formulas and links intact. If the file is linked to any other files, please provide those linked files in their original format, with all formulas intact.

RESPONSE: The most recent cost of service study was prepared for the 2005 rate case (Docket DW 05-119) by the Company's expert witness, John Guastella. That study is proprietary to Mr. Guastella and, while the Company has copies of the study input data and results, the Company does not have an electronic copy of the cost of service study with formulae and links as requested.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to Staff Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: Staff 2-24  
Page 1 of 2

Date of Response: October 10, 2012  
Witness: T. Dixon

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**REQUEST: Re: Testimony of Witness Hibbard page 4: “The rate relief requested is driven by .....reductions in revenues relative to those assumed in the Company’s last rate case, (19.3%), ...” and Testimony of Witness Dixon page 6.**

- a) Please provide the Company’s evidence as to the reason(s) for the reduction in revenues related to consumption;
- b) Please state whether the Company has taken or plans to take any steps in the future to reverse the trend;
- c) Since revenue stability is such a critical principle in the rate setting process and given the Company is seeking recovery of revenue losses through increased rates thus reducing the uncertainty and therefore substantially reducing Company risk, shouldn’t the reduced risk be reflected in a reduction to the equity component of the Company’s rate of return? If not, why not?

**RESPONSE:**

- a) The Company has not performed a study to determine the exact causes of usage declines because the declines referenced by Mr. Hibbard and Mr. Dixon are consistent with those observed by Aquarion’s Connecticut affiliate as well as those documented by water utilities nationwide. The Company believes that the long-term decline in base usage is attributable to the conservation impacts associated with the ongoing installation by customers of water saving appliances and plumbing fixtures that replace older appliances and fixtures. In addition, some of the reduction may also be attributable to better overall water conservation practices by customers. A 2005 report (Staff 2-24 Attachment A) put out by the United States Environmental Protection Agency (“EPA”) measures the impacts associated with retrofitting these appliances and fixtures. The report finds that conversion to higher efficiency appliances and fixtures results in a 39% reduction in indoor use per home. A 2010 report by the Water Research Foundation (Staff 2-24 Attachment B) further discusses the continued trend of declining consumption.
- b) The Company does not have plans to attempt to reverse the above-described declines in consumption, which are the result of government and industry

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to Staff Data Requests—Set 2

Data Request Received: September 26, 2012  
Request No.: Staff 2-24  
Page 2 of 2

Date of Response: October 10, 2012  
Witness: T. Dixon

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efforts to promote conservation of water resources. The Company will continue to support conservation and demand side management.

- c) The Company does not seek to recover lost revenues. The Company is seeking to have rates set at a level that gives it a reasonable opportunity on a going forward basis to recover its authorized return based on the cost of providing water service to its customers. The Company's rate request merely notes that one of the factors contributing to its low achieved rate of return was the fact that the level of consumption used to set rates in the last rate case proved to be higher than the actual level of consumption by customers. The Company's risk is not reduced by adjusting rates on a going forward basis because the Company continues to bear the risk that the assumed sales volumes will not materialize. If that occurs, and consistent with past practice and Commission policy, the Company will not be made whole for the lost revenues.

AQUARION WATER COMPANY OF NEW HAMPSHIRE

DW 12-085

Aquarion Water Company's Responses to Staff Data Requests—Set 2

Data Request Received: September 26, 2012  
 Request No.: Staff 2-25

Date of Response: October 10, 2012  
 Witness: T. Dixon

**REQUEST:** Aquarion has stated that its sales volume has declined and for temporary rates, Aquarion estimated the average annual residential ratepayer usage at 53,300 gallons, or 7,100 ccf. Please provide information documenting this decline such as a calculation of the average annual residential consumption for each of the past three years.

**RESPONSE:** The average residential consumption takes the annual residential consumption divided by the year end residential customers. The table provided below illustrates the annual average residential consumption for the last five years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Residential Consumption	483,835	440,067	411,267	451,899	428,762
Residential Customers	7,794	7,885	7,933	7,967	8,042
Consumption/Customers	62.1	55.8	51.8	56.7	53.3

