

In Re:

*DW 12-085 AQUARION WATER CO. OF N.H., INC.
HEARING REGARDING PERMANENT RATES*

*DAY 2 - AFTERNOON SESSION ONLY
May 24, 2013*

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 **COPY**

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1 AFTERNOON SESSION
2 CHAIRMAN IGNATIUS: We're back
3 on the record after the lunch break. Thank you
4 everyone for being very prompt.
5 So, Mr. Parcell is on the
6 stand, and we now have cross-examination from
7 the Company.
8 Mr. Camerino.
9 MR. CAMERINO: Thank you.
10 EXAMINATION
11 BY MR. CAMERINO:
12 Q. Good afternoon, Mr. Parcell.
13 A. Good afternoon.
14 Q. You mentioned on your direct examination that
15 you've written a book on cost of capital. I
16 wanted to ask you just very briefly about
17 that.
18 The last edition was 2010?
19 A. That is correct.
20 Q. Could you tell us who wrote the Forward to
21 your book?
22 A. Ms. Ahern. A very nice one, I might add.
23 [Laughter]
24 A. A good friend of mine, I also might add.

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1 Q. Would you agree that if a utility is an
2 efficient and economically managed utility,
3 it should be allowed to -- it should be able
4 to earn its allowed return over time?
5 A. I didn't quite hear you.
6 Q. There's a lot of background. I'm sorry. And
7 I actually don't want to trick you here.
8 I'm looking at Page 4, Line 10 of your
9 testimony.
10 A. Okay.
11 Q. And what you said there is that, if a utility
12 is an efficient and economically managed
13 utility, it should be able to earn its
14 allowed return over time. I just wanted to
15 confirm that.
16 A. It should have the opportunity to, yes.
17 Q. But that over time, if it's well managed, it
18 should actually be able to earn it over time.
19 Maybe not in any given year, but let's say on
20 average. That's the whole point, is that it
21 should be able to earn the return that's
22 authorized. Not be guaranteed it, but it
23 should be able to achieve it.
24 MR. GEARREALD: Just objection.

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1 I think it says "will be able to maintain," not
2 that it "should be able to maintain," if we're
3 reading it.
4 CHAIRMAN IGNATIUS: Thank you.
5 (By Mr. Camerino)
6 Q. I'm not trying to quote it. I'm trying to
7 ask you about the concept.
8 A. I understand your question. I'm hesitant to
9 agree with that, because the corollary is if
10 a company is not earning its authorized
11 return, by definition, one might conclude the
12 company was imprudent, and I'm not willing to
13 say that.
14 Q. Well, actually, that is connected to part of
15 what I'm asking you. One reason that a
16 company can't earn its allowed return is it's
17 not well managed; right?
18 A. It's what?
19 Q. Is that it is not well managed.
20 A. That could be an option, yes.
21 Q. Okay. But another reason might be that there
22 are some other things happening that it is
23 not able to manage beyond, such as reductions
24 in consumption that are not reflected in the

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1 way the rates were set, or increases in
2 expenses that go beyond what a well-managed
3 utility can control.
4 A. I agree with that, yes.
5 Q. So if it is well-managed and it's not
6 imprudent, it should, over time, be able to
7 earn the return that's authorized by the
8 Commission.
9 A. The way your question is stated, the answer
10 is yes. But I don't know what your
11 definition of "well managed" is. I don't
12 know how we would measure that. But
13 conceptually I agree with you.
14 Q. Okay. So if a well-managed utility
15 consistently can't earn its authorized
16 return, wouldn't that indicate some increased
17 investment risk for investors?
18 A. It might or might not.
19 Q. Well, why are you qualifying it?
20 A. Well, you've got to understand, as I'm sure
21 you do understand, that the role of
22 regulation is to provide a balance between
23 the interest of its ratepayers, the company's
24 ratepayers, and its stockholders. And one of

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1 the items you mentioned was a reduction in
2 usage. Well, if you have a reduction in
3 usage and you pile on more cost to
4 ratepayers, that's on the balance side of
5 ratepayers. If you give it all to the
6 stockholders, then you do it at the expense
7 of the ratepayers. So if a utility
8 commission is going to do its proper
9 balancing act, you've got to consider both.
10 And sometimes if you consider both, you may
11 not expect to earn the authorized return over
12 time. You may not under certain
13 circumstances because of the balancing
14 procedure.

15 Q. Well, the return that we're setting, isn't
16 that in fact the return that the Commission
17 is attempting to determine is demanded by
18 investors?

19 A. Yes. By definition, yes.

20 Q. And so if the investors routinely can't earn
21 the return that they demand, are they going
22 to keep investing?

23 A. Well, that has been the case for many
24 utilities over time. So I guess the answer

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1 is yes.

2 Q. Relative to other utilities -- in other
3 words, if they can get the return elsewhere
4 with an investment of similar risk, are they
5 going to put it in the utility that's not
6 earning the return that they demanded?

7 A. And investor will put his or her money where
8 they expect to get a risk-adjusted rate of
9 return, which would be in the case of
10 dividends received in the DCF context.

11 So, in a low-interest rate environment,
12 investors are concerned about dividends and
13 put a lot of money in utility stocks over a
14 couple years because of that. So there are
15 other factors that go into why an investor
16 would make a decision to invest in a utility
17 or any other company other than that, as
18 we've seen over the last couple years.

19 Q. Fair enough. So what you're saying is the
20 ability to receive a dividend is a very
21 significant part of what attracts that
22 investment.

23 A. I would say for an investor, that's true. If
24 you buy a stock, a publicly traded stock

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1 that's in the utility industry, you would do
2 so, in significant part, I would define, for
3 the dividend yield, maybe more so for
4 industrial stock.

5 Q. And so if you were a investigator in a
6 utility stock, and you saw that the company
7 that you're thinking of investing in couldn't
8 pay a dividend for three years in a row, that
9 would have a pretty big impact on your
10 perception of risk, wouldn't it?

11 A. You say "couldn't." "Couldn't" or "didn't"
12 are two different things.

13 Q. Okay. Did not.

14 A. Well, if you did not, the question is: Why
15 did it not? Did it not do so because it
16 could not, or did it not do so because it
17 chose to not receive a dividend from the
18 parent, as opposed to making an equity
19 infusion from a parent down?

20 So I guess there's two ways for a parent
21 company to put stock in a subsidiary. One is
22 to slow the dividend growth from the
23 subsidiary to the parent, and the other is to
24 keep the dividend and then place money and

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1 send it back down to the subsidiaries. So
2 there's two ways to do it, with essentially
3 the same result.

4 Q. Suppose that same utility that hadn't paid a
5 dividend for three years also had steadily
6 declining earned returns and declining
7 retained earnings? Would that indicate a
8 significant increase in risk to equity
9 investors?

10 A. If you had a stand-alone company that
11 couldn't pay dividends -- could not, you say?

12 Q. I said "did not."

13 A. I don't want to -- okay.

14 If you had utility, a stand-alone
15 utility that did not -- sorry about that --
16 did not pay dividends, chose to, and at the
17 same time retained earnings was declining, by
18 definition, that implies that the company was
19 losing money; otherwise, retained earnings
20 would not be going down. And losing money
21 over time would certainly not be a desirable
22 situation.

23 Q. And suppose that the same utility had an
24 increasing equity ratio -- sorry -- debt

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1 ratio over that time. Just hold that
2 assumption for the moment. If it had paid a
3 dividend, all things being equal, the debt
4 ratio would have actually become higher;
5 correct?
6 A. Well, we need one more assumption; and that
7 is, the parent who helps control the capital
8 structure of the subsidiary, at the same time
9 that the parent implied or indicated to sell
10 more debt also indicated we're not going to
11 put in more equity into it. For both of
12 those, yes. The answer is yes.
13 Q. And the parent is, in fact, in this case, the
14 shareholder whose investment we're trying to
15 attract and who's assessing the risk of that
16 investment; correct?
17 A. Say that again, please?
18 Q. You said that that assumes that the parent
19 hasn't put in more equity.
20 A. Yes.
21 Q. So the debt ratio will go up because --
22 A. You sold debt. The debt ratio goes up
23 because you sold debt.
24 Q. You needed that debt because you didn't have

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1 sufficient internally generated equity, and
2 you didn't bring it in from the outside;
3 correct?
4 A. That's correct. Those two reasons, yes.
5 Q. And the opportunity to bring it in from the
6 outside is to bring it in from the
7 shareholder whose investment we're trying to
8 attract.
9 A. In a generic sense, yes. In this case, it's
10 not who the shareholder is, because there's
11 so many tiers of ownership, and none of which
12 are publicly traded, but in a conceptual
13 shareholder sense, yes.
14 Q. Ultimately, that entity may itself have
15 shareholders, but there is outside capital
16 we're trying to bring in.
17 A. That is correct. Or at least internal
18 capital from other sources. One of the two.
19 Q. But eventually, the managers of the utility
20 or its parent, or the parent of that, are
21 responsible to some shareholders to
22 demonstrate that they got a return for the
23 investment that they made; correct?
24 A. You just said "managers"; right?

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1 Q. People operating the utility.
2 A. Yeah, that's right. Answer is yes.
3 Q. Okay. All things being equal, would you
4 agree that a company that has a higher debt
5 ratio is a riskier place for equity investors
6 to put their money?
7 A. All other things equal, which would include
8 the ownership structure, yes. All things
9 equal.
10 Q. And on -- in your prefiled testimony, on
11 the -- you have a chart of the debt ratio --
12 I'm sorry -- the equity ratios of your proxy
13 group that's on Page 12.
14 A. Yes, I do.
15 CHAIRMAN IGNATIUS: Are you on
16 the direct or the --
17 MR. CAMERINO: I'm on the
18 direct, which, for the record, is Exhibit 13.
19 A. Yes, I do.
20 (By Mr. Camerino)
21 Q. So at the bottom of the page there, those
22 ratios are equity ratios -- meaning, if we
23 took 100 percent minus the number there, we
24 would see what the debt ratio is.

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1 So, for ease of reference, the 2009
2 figure would be 51 percent debt; is that
3 correct?
4 A. Assuming no preferred stock, yes.
5 Q. Okay. So, the highest in those five years,
6 the highest amount of debt is 53 --
7 54 percent debt in 2010?
8 A. That is correct.
9 Q. And is it a fair statement, just looking at
10 that, and based on my -- well, is it a fair
11 statement that, to see a 50 percent debt
12 level, even a 55 percent debt level for a
13 water utility, is a fairly typical debt ratio
14 in the industry?
15 A. Yes. I would say that the typical operating
16 water utility in a rate case is about 50/50.
17 Yes.
18 Q. Okay. And so, if a utility came in for a
19 rate case and had a 50 percent debt ratio,
20 even a 55 percent debt ratio, it would be --
21 usually that would just be used in the
22 capital structure for purposes of determining
23 the overall rate of return. There wouldn't
24 normally be -- that wouldn't be considered

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1 imprudent, or it wouldn't be an imputed cap
2 structure used; is that fair?
3 A. I think you're assuming it's the company's
4 actual per-book capital structure, utilities.
5 Q. I want to ask you a few questions about your
6 CAPM results.
7 A. Sure.
8 Q. If I understand your testimony, you're saying
9 that a 6.1 percent return on equity is a
10 reasonable return on equity, based on your
11 CAPM methodology?
12 A. I wouldn't go that far. What I'm trying to
13 convey here is that 6.1 percent return from
14 CAPM is one factor investors would consider
15 in deriving an expected return from a
16 utility. In fact, I wouldn't recommend 6.1.
17 But I think 6.1 is a factor that in the
18 current environment an investor would
19 consider as an alternative measure of capital
20 costs.
21 Q. I guess I'm a little confused. Do you think
22 6.1 percent return on equity is sufficient to
23 attract capital?
24 A. No, and I'm not recommending that.

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1 Q. Okay.
2 A. But I -- well, I've said what I said.
3 Q. And in your methodology, though, you gave
4 that 6.1 percent return equal weight.
5 A. Correct. One-third weight. That's right.
6 Q. Okay. I'd like to ask you some questions
7 about your DCF methodology now.
8 A. You said "DCF"?
9 Q. Yes.
10 A. Yes. Sure.
11 Q. If you look at Page 19 of your testimony --
12 A. Yes, I'm there.
13 Q. -- you say -- you start with a range of
14 8.3 percent to 9.6 percent, and you say
15 that's the current DCF-derived cost of equity
16 for the proxy group. Do you see that?
17 A. Yes. In my judgment, yes.
18 Q. But again, as to what you would recommend
19 using DCF, your recommendation would be in
20 the 9.0 to 9.6 percent range?
21 A. That is correct. I took the high end of the
22 range.
23 Q. And as you said earlier, you actually used a
24 similar methodology to Ms. Ahern, so that at

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1 the end of the day -- and thankfully for --
2 A. Similar results --
3 Q. -- yeah, everyone in the room --
4 A. Really the same way, similar results.
5 Q. One second. I'm going to try to skip over a
6 bunch of questions about areas where you have
7 differences.
8 A. Okay.
9 Q. But there's a lot of ink spilled in Ms.
10 Ahern's testimony and yours about your
11 methodologies on DCF. But your testimony is
12 that the Commission doesn't really need to
13 pay that a lot of mind. There may be
14 credibility issues or things like that. But
15 end results-wise, you and she, in your DCFs,
16 come out to a similar range. Is that --
17 unadjusted. Is that a fair statement?
18 A. Well, not exactly how I would express it.
19 But you're close.
20 Q. I am trying to skip over a bunch of --
21 A. Everybody, including me, likes that.
22 Q. I want to incentivize it.
23 Okay. And so now I'm going back to your
24 overall ROE recommendation.

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1 So you reach that result by taking three
2 different methods -- your comparable earnings
3 and your DCF and your CAPM -- and you average
4 them; is that correct?
5 A. That is correct.
6 Q. So that each get equal weight.
7 A. That is correct.
8 Q. And again you treated the CAPM on a par with
9 the CE and DCF; is that correct?
10 A. That is correct.
11 Q. Do you think it's important for an expert
12 witness to have consistency in how -- the
13 methodology that they use from case to case?
14 A. I do. And I recognize in this case, by using
15 the CAPM results, which I've not done in a
16 few years, that you might think I'm being
17 inconsistent. But as I state in my
18 testimony, I've been watching these low
19 rates, low interest rates for, four or five
20 years thinking they're temporary, and they're
21 not temporary. They're still here. So it's
22 time to move on and recognize the obvious.
23 But yes, I think in general it's
24 important to be consistent.

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1 Q. So, as part of that consistency, in every
2 case you used those three methodologies;
3 right?
4 A. Say it again?
5 Q. As part of being consistent, in every case
6 you use those three methodologies, at least
7 for water cases.
8 A. At least I show calculations for all three,
9 yes.
10 Q. And I'm going to show you excerpts from your
11 testimony in a few other cases. And I could
12 ask you if you recall them, but I think what
13 I want to do, to move it along again, I'm
14 going to give you excerpts with the actual
15 numbers.
16 A. Sure. That's fine.
17 Q. I'm going to hand these all out at once. I'm
18 going to give you these one at a time;
19 otherwise, I'm going to confuse myself.
20 (Atty. Camerino hands document to
21 witness.)
22 Q. So this is an excerpt in your testimony in a
23 Pennichuck Water Works rate case in 2007.
24 And you see the figures that are --

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1 A. You're telling me that; right?
2 Q. Excuse me?
3 A. You're telling me that; right?
4 Q. Yes.
5 A. If you're representing this is 2007, I'll
6 accept that. This doesn't show that.
7 Q. Yes. Actually, let me say something about
8 that.
9 MR. CAMERINO: I have complete
10 copies of the testimonies that I'm showing Mr.
11 Parcell excerpts from, and I'd be happy to
12 share those, particularly with Mr. Gearreald,
13 to make sure that they are what I'm
14 representing. But I didn't want to make 10
15 copies of each of the testimonies that I'm
16 going to go through. So whether he wants to
17 see them now or at some point just to check,
18 I'm happy to handle it however he or the
19 Commission would like to do.
20 MR. GEARREALD: Well, if you're
21 going over them one by one, I'd like a complete
22 copy.
23 MR. CAMERINO: Okay.
24 (Atty. Camerino distributes copies.)

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1 (By Mr. Camerino)
2 Q. So what this is, I will represent to you,
3 it's an excerpt from your testimony in the
4 2007 Pennichuck Water Works rate case. And
5 you see those three results from the same
6 methodologies that you had in this case?
7 A. Yes.
8 Q. And if you look at the last line, your
9 recommendation includes -- it is essentially
10 the same as your DCF range; correct?
11 A. Well, it's all the ranges combined.
12 Q. I understand that. But I want to take this
13 one step at a time.
14 A. Sure.
15 Q. But it includes your DCF range.
16 A. It certainly does, yes.
17 Q. And it includes your comparable earnings
18 result?
19 A. Right. That's correct. Uh-huh.
20 Q. It does not include the entirety of your
21 CAPM M result; correct?
22 A. No, it does.
23 Q. Oh, this one does?
24 A. Yes, yes.

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1 Q. Okay. This includes all three.
2 A. Yeah.
3 Q. They're all in that range.
4 A. They're all in there, yes.
5 Q. So you included them all; right?
6 A. That's correct.
7 Q. Okay. The next one I want to show you is the
8 Pennichuck case from 2009 that you were just
9 referring to.
10 A. Okay.
11 Q. And if you look at the last line of that
12 testimony --
13 MR. GEARREALD: I'm sorry,
14 Steve. Do you have the whole one?
15 MR. CAMERINO: Oh, I'm sorry.
16 CHAIRMAN IGNATIUS: We're going
17 to take a paper towel break for a second. It
18 wouldn't be a water case without it.
19 (Pause in proceedings)
20 (By Mr. Camerino)
21 Q. All right. So if you look at the last line
22 of that page --
23 A. Sure.
24 Q. -- you recommend a cost of equity rate of 9

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1 to 10 percent. Do you see that?
2 A. I do, yes.
3 Q. And that, again, is the same as your DCF
4 range?
5 A. Includes, yes, all of the DCF range.
6 Q. And it includes your comparable earnings
7 results?
8 A. It does.
9 Q. It does not include the CAPM range, other
10 than the high end; right?
11 A. That's right. It just includes the high end
12 of the CAPM range. That's correct.
13 Q. Okay. The next one I want to show you is an
14 excerpt from a 2011 United Water case.
15 (Atty. Camerino distributes document.)
16 CHAIRMAN IGNATIUS: As you're
17 passing those out, Mr. Camerino, is it your
18 intention to mark all of these?
19 MR. CAMERINO: I think that
20 might be a good idea.
21 CHAIRMAN IGNATIUS: Why don't we
22 go ahead. The first one was the 2007 PWW rate
23 case excerpt which will be marked as Exhibit 28
24 for identification.

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1 The second one, the 2009 PWW
2 rate case, will be 29 for identification.
3 (Exhibits 28, 29 marked for
4 identification.)
5 (By Mr. Camerino)
6 Q. Okay. And so, looking at the United Water
7 excerpt, Page 25 --
8 MR. GEARREALD: I'm sorry,
9 Steve. Do you have a full copy?
10 MR. CAMERINO: Oh, yeah. I'm a
11 slow learner.
12 (Atty. Camerino hands document to Atty.
13 Gearreald.)
14 MR. HARRINGTON: What was the
15 date of the United one?
16 MR. CAMERINO: The testimony is
17 dated August 5th, 2011.
18 (By Mr. Camerino)
19 Q. And in that case your DCF was 9 to
20 10 percent?
21 A. Yes.
22 Q. Your comparable earnings was 9-1/2 to 8-1/2
23 percent?
24 A. What did you say?

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1 Q. I'm sorry. Your comparable earnings was
2 9-1/2 percent to 10-1/2 percent?
3 A. That's correct. Yes.
4 Q. And in that case, your CAPM was lower than
5 any other cases. It was down to 8.1 to
6 8.2 percent?
7 A. That is correct.
8 Q. And in that case, you took the midpoint of
9 your DCF and comparable earnings ranges;
10 right?
11 A. That is correct.
12 Q. You did not average in the CAPM.
13 A. That is correct.
14 Q. Okay. And you had a recommended range of
15 9-1/2 to 10 percent, with a midpoint of
16 9.75 percent?
17 A. That is correct.
18 Q. And that range was the same as the midpoints
19 of your DCF and comp earnings ranges; right?
20 A. That is correct.
21 Q. So it doesn't include your CAPM range.
22 A. That is correct.
23 Q. And then we get to a case in 2012, New Jersey
24 American Water?

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1 A. Hmm-hmm.
2 Q. Show you Page 24 from that case.
3 (Atty. Camerino distributes copies.)
4 MR. CAMERINO: And just for the
5 record, this is a double-sided document. The
6 numbers are actually on the back of the page.
7 CHAIRMAN IGNATIUS: We'll mark
8 the United Water one as Exhibit 30 for
9 identification, the 2011.
10 And then 32 would be the -- I
11 don't actually know what it is yet. So I'll
12 let you get that out first.
13 MR. CAMERINO: So the New Jersey
14 American Water is 31?
15 CHAIRMAN IGNATIUS: I'm sorry.
16 I just got that wrong. So, 31 would be New
17 Jersey American Water. And what's the year?
18 MR. CAMERINO: 2012.
19 CHAIRMAN IGNATIUS: Thank you.
20 MS. HOLLENBERG: Excuse me,
21 Commissioner. I think 30 is 2011 United Water,
22 and 31 is 2012 New Jersey.
23 CHAIRMAN IGNATIUS: Let's go
24 through them again.

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1 So, 28 should be PWW, 2007; 29
2 should be PWW, 2009; 30 should be United
3 Water, 2011; and 31 should be New Jersey
4 American Water, 2012.
5 (Exhibits 30, 31 marked for
6 identification.)
7 MR. CAMERINO: I agree.
8 (By Mr. Camerino)
9 Q. All set Mr. Parcell? I'm going to ask the
10 next question.
11 A. Yes, yes. Please do.
12 Q. So, looking at that New Jersey American Water
13 case, in that case the DCF range is 9.0 to
14 10.0; correct?
15 A. Yes. Uh-huh.
16 Q. And the comparable earnings is 9-1/2 to
17 10-1/2; correct?
18 A. Yes, it is.
19 Q. And the cap M has dropped further, to
20 6.8 percent?
21 A. That is correct. Yes.
22 Q. And in that case, you also took the midpoint
23 of your DCF and comparable earnings ranges;
24 right?

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1 A. Right.
2 Q. You did not average in the CAPM.
3 A. Right. But as you can see in the next
4 question and answer right below that, I have
5 reference to "Why?" Yes.
6 Q. Yes. And you actually have an answer in this
7 case as well to the same question; correct?
8 A. That's right. On a continuing basis, these
9 low interest rates have proved not to be
10 temporary. So I think it's proper to bring
11 CAPM back into play.
12 Q. And by the way, your CAPM dropped over the
13 course of five months from the New Jersey --
14 between the New Jersey and the Pennsylvania
15 cases. It dropped from a range of 8.1-8.2 to
16 6.8 over five months?
17 A. I don't have the time period as to what years
18 they are. So if you represent the dates,
19 I'll accept that, no problem, if you have it.
20 Q. I'm actually going to -- so I don't have to
21 represent it, I'm going to actually read it
22 to make sure.
23 A. I'll accept that, no problem. I believe you.
24 Q. Well, the United Pennsylvania case, the

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1 testimony is dated August 5th, 2011.
2 A. Hmm-hmm.
3 Q. And the New Jersey case, the testimony is
4 dated January 13, 2012.
5 A. Good enough. Thank you. I'll accept that.
6 Q. So the CAPM dropped significantly during
7 those five months.
8 A. It did. Yes. Uh-huh.
9 Q. And in the current case, the DCF and the
10 comparable earnings ranges that you have,
11 they're relatively close to the ones that are
12 in the New Jersey case; right? They've
13 dropped a little, but they're in that same
14 area?
15 A. They are.
16 What I don't know, as I sit here, is
17 whether the New Jersey case, my DCF results
18 reflected the top end of the range like they
19 do in this case. They might not. I just
20 don't know.
21 Q. So you're following the same approach in each
22 of these cases. But in those cases, when the
23 CAPM was outside of the range of the DCF and
24 the comparable earnings, you did not include

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1 it in your recommendation; correct?
2 A. That is correct, because I thought it was a
3 temporary phenomenon and it should be ignored
4 in a temporary sense. Yes, that's correct.
5 Q. Now, in this case, you're giving it equal
6 weight, and you're telling the Commission you
7 do not think that that number would be a
8 reasonable return to authorize for this
9 utility because it would be insufficient to
10 attract capital; correct?
11 A. By itself, yes. But it's a consideration
12 that investors would take into consideration
13 when they make their investment decisions in
14 price stocks; therefore, establish cost of
15 equity model results, yes.
16 Q. And is it a fair statement that the numbers
17 in the other ranges you do consider to be
18 reasonable cost of equity to authorize for
19 the utility?
20 A. You mean Exhibits 28, 29 and 30, the other
21 cases? Is that what you mean?
22 Q. Well, let's focus on this range. The ranges
23 that you give, those are a range of
24 reasonable outcomes; correct?

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1 A. Oh, you mean ranges of other methods as
2 opposed to other companies.
3 Q. Yes.
4 A. I'm sorry. I do get what you're asking now.
5 Yes. The answer is yes.
6 Q. Okay. I want to ask you some questions about
7 capital adjustment mechanisms.
8 A. Capital adjustment mechanisms.
9 Q. Yes. And actually, the first thing I want to
10 do is get us on the same plane as to what a
11 capital adjustment mechanism is.
12 A. That's a great idea.
13 Q. Okay. So I'm using the term to mean that
14 it's a mechanism by which regulators adjust
15 rates annually for specific types of capital
16 additions. An example might be a main
17 replacement program or some kind of other
18 infrastructure replacement program.
19 A. Okay.
20 Q. Does that make sense to you?
21 A. Yes. I understand what you're saying.
22 Q. And so WICA, in that parlance, I would
23 include in what I'm talking about as a
24 capital adjustment mechanism. Does that make

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1 sense?
2 A. Yes.
3 Q. When you look at your proxy group, can you
4 tell me what capital adjustment mechanisms
5 the nine companies have?
6 A. No, I did not address that or WICA in my
7 testimony. WICA never appears in my
8 testimony.
9 Q. I know that. But I'm not just asking about
10 WICA.
11 You have nine companies. And presumably
12 they have somewhat different regulatory
13 situations. They may have different types of
14 adjusters that are allowed or not allowed in
15 their jurisdiction; correct?
16 A. I mean, it's so diverse. You may have a
17 holding company, like United Water, that has
18 multiple subsidiaries in the same states,
19 plus subsidiaries in multiple states. So, I
20 mean, I think American Water Works is in 22
21 states.
22 Q. Some of them have purchased water adjustment
23 mechanisms; right?
24 A. And purchase power adjustments. But I've

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1 never seen a study that lists everything for
2 each subsidiary.
3 Q. And some of them might have WICA adjustments,
4 right?
5 A. They might. I don't know.
6 Q. And some of them -- the same might be true
7 for your gas group, for that matter.
8 A. I'm sorry. I missed the word.
9 Q. The same might be true for the gas companies
10 you looked at. Some of them may have main
11 replacement programs that they come in every
12 year and get an adjustment for; right?
13 A. Or decoupling, yes.
14 Q. Or decoupling.
15 And you didn't look at that when you
16 looked at the proxy group; right?
17 A. That is correct. I took the proxy group as a
18 whole for all the companies in all the
19 jurisdiction as a whole as opposed to a micro
20 approach.
21 Q. Well, isn't it pretty important to know what
22 mechanisms they have? I mean, is there some
23 reason you didn't look at each company in the
24 proxy group to see what mechanisms they had?

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1 A. Well, let me just answer that in the nicest
2 possible way. My client and me are not the
3 Applicant here. I was hired to comment on
4 the Company's case and provide analyses. And
5 if those analyses were not in the Company's
6 case, I don't see why -- answering this as
7 nice as I possibly can -- I don't see why
8 that burden would shift to me.
9 Q. I'm not asking about a burden. I'm just
10 asking you about whether -- maybe it's the
11 case that knowing what those mechanisms are
12 isn't important. That's what I'm trying to
13 understand.
14 Is knowing what mechanisms these
15 companies have, is that not important because
16 it's a proxy group? Is there something about
17 it?
18 A. Well, it is a little bit and it's not. It's
19 something on an overall risk standpoint. But
20 when you consider a proxy group and you look
21 at their security ratings and their debt
22 ratings, and you see what the overall risk is
23 and you compare -- you use that to develop a
24 cost of capital for your subject company,

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1 like Ms. Ahern says, it's the Prego model.
2 It's in there. That's the other side of the
3 coin, I guess.
4 Suppose you had a company that did not
5 have something like that at one point in time
6 and suddenly got it. Then the relevant
7 question is: How does that new regulatory
8 mechanism impact that company? Or as we
9 heard this morning, how does the fact that
10 one company in this state may have it and the
11 others do not, and the others have a certain
12 stipulated rate of return. Maybe this
13 company, because it has WICA, is different.
14 So there's a lot of aspects to that.
15 But I have not explored that in my testimony.
16 There's a lot of angles you could go to to
17 get there, and not all with the same result.
18 Q. What I'm trying to understand is, when you
19 pick a proxy group, if I understand
20 correctly, these companies -- first of all,
21 the companies you're looking at are actually
22 made up of many subsidiary companies;
23 correct?
24 A. In most cases, yes.

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1 Q. And those subsidiaries have different types
2 of mechanisms, and they're not all the same;
3 right?
4 A. Definitely so.
5 Q. And the DCF method is based on taking that
6 group of companies as a whole and coming up
7 with a recommended return; correct?
8 A. That is correct.
9 Q. And because in this mix of companies there
10 are various types of adjustment mechanisms,
11 you don't make an adjustment for any specific
12 one of them. Is that a fair statement?
13 You're not going in and saying these
14 companies have purchased water adjustment
15 clauses. I need to now adjust the results of
16 my DCF for that.
17 A. Well, again, like I said in prior answers --
18 I'm going to try to keep this as brief as
19 possible -- it depends on where you are. If
20 a company is moving to an adjustment
21 mechanism, the question is: Does this factor
22 change the Company's risk prior to where it
23 was before it got it?
24 Q. Well, who -- aren't you coming up with the

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1 recommended return for the Company in this
2 case? Aren't you doing that by reference to
3 your proxy group? Not by reference to this
4 company itself, but by reference to a proxy
5 group. Isn't that how DCF done?
6 A. Yes. In fact, you asked me that in a data
7 request, in which I responded that I made the
8 implicit assumption that the overall risk to
9 Aquarion of New Hampshire was the same as the
10 proxy group.
11 Q. And that's how DCF is done; correct?
12 A. That's how my DCF is done and the way many
13 DCFs are done, yes.
14 Q. So then, if an adjustment mechanism that the
15 company -- maybe to keep it simple -- the
16 Company for which you're trying to find the
17 implied rate of return on equity, if that
18 adjustment mechanism is already reflected in
19 the proxy group, you certainly wouldn't
20 adjust for it again; right?
21 A. Well, if you could demonstrate that the --
22 well, let me start over.
23 Let's just say, hypothetically, you
24 determine that a proxy group subsidiary

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1 companies in toto, 57 percent of their
2 revenues or plant were subject to some form
3 of adjustment cost. You could conceivably
4 compare that to the subject companies to see
5 how that percentage related to the subject
6 company and make some kind of adjustment.
7 But you'd have to -- it requires a tremendous
8 amount of data to do that because you've got
9 to go into each company almost to see their
10 tariffs to determine how they work.
11 So, just because a holding company has a
12 subsidiary in a state that has some kind of
13 mechanism doesn't mean that mechanism is
14 applicable the same as the one in your state.
15 You just don't know. And some have none at
16 all.
17 Q. And that's not an analysis you did in this
18 case.
19 A. Nor have I seen anybody do it. I've seen it
20 done somewhat for gas companies, but never
21 for water.
22 Q. And so you've never seen anybody do it, and
23 you yourself have never done it; right?
24 A. No, I have not.

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1 Q. I take it you're familiar with the NARUC
2 Resolution that Mr. Dixon testified
3 regarding -- concerning the need for
4 infrastructure replacement?
5 A. Are you referring to Ms. Ahern's testimony?
6 Q. I was referring to Mr. Dixon's testimony. I
7 think it also was referenced in Ms. Ahern's
8 testimony.
9 A. If that's the case, yes.
10 Q. I'm going to give you a copy, just so you
11 have it in front of you.
12 A. Sure. Thank you.
13 MR. CAMERINO: Actually, if we
14 could mark this. It may actually be...
15 CHAIRMAN IGNATIUS: Is it --
16 MR. CAMERINO: We don't need to
17 mark this separately. This may just be easier
18 for reference. But this document is apparently
19 attachment TMD3 to Mr. Dixon's testimony.
20 CHAIRMAN IGNATIUS: That's
21 correct. Is it the NARUC Resolution on Best
22 Practices?
23 MR. CAMERINO: Yes, dated 2005,
24 because I think there may be an earlier one.

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1 CHAIRMAN IGNATIUS: So that's
2 Page 100 of 171 in this green binder.
3 (By Mr. Camerino)
4 Q. And if you look at that -- you may already be
5 familiar with this -- that indicates that a
6 massive capital -- significant capital
7 requirements are leading to need for some
8 kind of additional ratemaking mechanisms for
9 accommodations. Is that a fair statement?
10 A. I don't know if "need" is the right word, but
11 it's suggested here that they're useful to
12 the utilities. And they made a resolution
13 that, as many as -- it's on the back page --
14 in their recommendation, economic regulators
15 consider and adopt as many as appropriate of
16 the regulatory mechanisms identified herein
17 as "best practices," yes.
18 Q. Well, could you look at the big paragraph in
19 the middle of the first page?
20 A. First page?
21 Q. Yeah, where it says "To meet the
22 challenges..."
23 A. Yes.
24 Q. Isn't the purpose of the items that are

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1 listed to respond to what is viewed as a
2 significant challenge in the water industry?
3 A. Yes, that's the background for the resolved.
4 Q. And one of those items, if you look down --
5 it's Item L -- it refers to a fair return on
6 capital investments.
7 A. Yes.
8 Q. When you read that, does that imply to you a
9 reduced return on capital -- a reduced return
10 on capital investment, that in order to meet
11 this challenge, regulators should give the
12 utility a lower return on equity than they
13 would otherwise give?
14 A. A fair return would take into consideration
15 any risk or changes in a risk associated with
16 the implementation of these. So, a fair
17 return is fair as determined "fair" by the
18 regulators, the individual regulators.
19 Q. I understand that.
20 When you read this context, is your
21 understanding that, as a cost-of-equity
22 expert, that in order to incentivize this
23 additional investment, regulators should give
24 a return on equity -- should authorize a

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1 return on equity that is less than they would
2 otherwise have given?
3 A. Doesn't say that. It just says "fair." And
4 if "fair" means less because of lower risk,
5 then it qualifies as "fair."
6 Q. Let me ask it this way: If regulators told
7 the Company, If you accelerate your
8 investment in infrastructure --
9 A. Accelerate?
10 Q. -- accelerate your investment in
11 infrastructure, one of the things we will do
12 is lower your return on equity, do you think
13 that's going to incentivize the investor to
14 put more capital into a business?
15 A. It could.
16 Let me give you an example: I've been
17 involved in electric cases where so-called
18 "decoupling" was an issue. And in an attempt
19 to get approval for decoupling, the utility
20 offered a lower return on equity to account
21 for lower risk. I mean, it's recognized in
22 those cases that there is less risk
23 associated with these regulatory mechanisms.
24 And the utility itself came in suggesting a

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1 reduction in what the fair return would be
2 because of that mechanism. So I've seen it
3 done by utilities, even.
4 Q. Decoupling --
5 A. It's usually not enough, but it's done.
6 Q. Decoupling affects 100 percent of a utility's
7 revenues, doesn't it?
8 A. Not 100 percent, but a lot.
9 Q. Very, very high percentage.
10 A. Yes. But, again, conceptually, that's what
11 I'm talking about.
12 Q. Do you know what percentage of Aquarion's
13 revenues are affected by the WICA?
14 A. No, because, as I said, WICA is a cumulative
15 thing. I've seen reference to how much it is
16 on a year-to-year basis. But I don't know.
17 It would take -- I couldn't do it. But I've
18 seen the number on an annual basis. It's not
19 large.
20 Q. Give me your sense of it. Please give me
21 your sense of it. Approximately what
22 percentage?
23 A. Well, again, I haven't addressed WICA in this
24 case. I've seen other witnesses who did.

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1 I've seen some data request that asked to
2 quantify it. But I don't recall what the
3 numbers were because I was not addressing
4 that issue. I could look through my files
5 and find it if you'd like.
6 Q. If you have it, I'd be --
7 CHAIRMAN IGNATIUS: Mr.
8 Camerino, clearly, you know what the percentage
9 is. Why don't we provide that to him and let
10 him comment on it.
11 (By Mr. Camerino)
12 Q. Let me represent to you that Mr. Dixon
13 indicates it's approximately 1-1/2 percent
14 per year. And I would ask you, on a break,
15 if you want to do what you need to do to make
16 sure you're comfortable with that
17 representation, that would be fine.
18 MR. GEARREALD: I object. We
19 have a chart that we submitted already through
20 Mr. Welch which shows the various breakdown
21 from year to year. And I believe there's a
22 higher percentage between years 2011 and 2012
23 than 1-1/2 percent.
24 CHAIRMAN IGNATIUS: Mr.

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1 Camerino.
2 MR. CAMERINO: I think what
3 we'll do is we'll see if we can find a document
4 that's in the record, and I'll move past it.
5 CHAIRMAN IGNATIUS: All right.
6 Thank you.
7 (By Mr. Camerino)
8 Q. Bottom line on WICA revenues, though, is it
9 affects a very small part of the total
10 revenues of a company; correct?
11 A. The annual WICA portion would be -- I would
12 assume so, yes. But like I said, I really
13 don't know. I've not examined that. That's
14 not even mentioned in my testimony.
15 Q. All right. But I'm asking you. WICA came up
16 in a cost of equity context --
17 A. But you asked me a technical question on an
18 issue I did not address. I'm sorry. I
19 apologize. I can't argue with you. I
20 apologize for saying that.
21 I don't know, because I did not address
22 it.
23 Q. I want to ask you a few things -- I'm going
24 to see if I can keep this short -- about your

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1 response to Ms. Ahern's testimony.
2 A. Sure.
3 Q. And on Page 4, Line 29 of your rebuttal, you
4 said that --
5 A. Page 4?
6 Q. Yes. I'll let you get there. Sorry.
7 A. Uh-huh.
8 MR. HARRINGTON: Exhibit 14?
9 MR. CAMERINO: It's Exhibit 14,
10 yes.
11 A. You said Page 4; correct?
12 Q. Page 4, Line 29. You'll recall she expressed
13 some concerns about the DCF model in her
14 testimony, as to what happens when the market
15 price is above the book price of the stocks.
16 Do you recall that?
17 A. Yes. I am looking at a copy of my testimony
18 that I printed off of my own computer. And
19 Page 4, Line 29, there's a line in the middle
20 of a question. I'm wondering if you're
21 seeing a different format than I've got,
22 because this is a single line from a question
23 on my copy.
24 Q. I'm going to --

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1 CHAIRMAN IGNATIUS: That's true
2 of all of ours.
3 MR. CAMERINO: Is it? I've got
4 a different... you are correct. Hang on.
5 (Pause in proceedings)
6 (By Mr. Camerino)
7 Q. Yeah, it's a question -- I'm sorry. Maybe I
8 didn't phrase it well.
9 Your question says that she maintains,
10 quote, "that the DCF model cannot be used as
11 an estimate of the cost of equity for a
12 utility when the market price of utility
13 stocks exceeds the book value." Do you see
14 that?
15 A. Yes, I do.
16 Q. That's your characterization of what she
17 said; right?
18 A. That is correct.
19 Q. She didn't actually say that anywhere, that
20 you can't use it, did she?
21 A. Well, I reference her Pages 14 to 16. I'll
22 have to --
23 Q. Take a look.
24 A. If I misinterpreted, I would gladly apologize

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1 to her in person and in public and put in
2 whatever is right.
3 Q. Well, and then on Page 5, Lines 1 to 2, you
4 say, "To make a modification of the DCF cost
5 rates, as Ms. Ahern proposes," --
6 A. Yes.
7 Q. -- "amounts to an attempt to 'reprice' stock
8 values in order to develop a DCF cost rate
9 more in line with what she thinks the results
10 should be."
11 A. Yes, sir.
12 Q. If you look at her testimony, she didn't make
13 any change to address the issue of market to
14 book prices, did she?
15 A. No, but she says you can't use the results
16 because of that. So if you can't use the
17 results -- either you use them or you don't.
18 If you don't, you should be making some
19 change.
20 Q. In fact, she develops a DCF result and simply
21 has noted that this is a problem with DCF.
22 Is that a fair statement?
23 A. I'll agree with that, yes.
24 Q. Thank you.

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1 A. I'll agree with that. Yes.
2 Q. Again, I'm not going to try to take you
3 through every one of these. But if you look
4 at Page 6 and 7 --
5 A. Six and seven? Sure.
6 Q. -- of your rebuttal testimony --
7 A. Yeah.
8 Q. -- I counted six times where you indicated
9 that she says "investors rely only on
10 earnings per share projections."
11 A. Yes.
12 Q. Can you tell me where she says in her
13 testimony that investors look at only
14 earnings per share projections?
15 A. What she says is that, in a DCF context, the
16 only growth factor you need to consider is
17 earnings per share projections. So if you're
18 going to use that, you are assuming that's
19 all that's important to investors. So that
20 is the nexus.
21 Q. Would you take a look at Page 17 of her
22 testimony?
23 A. Sure.
24 Q. Lines 4 to 8.

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1 CHAIRMAN IGNATIUS: And this is
2 Exhibit 8; is that correct?
3 MR. CAMERINO: That is correct.
4 A. I'm sorry. Page 17 again?
5 (By Mr. Camerino)
6 Q. Page 17, Line 8.
7 A. Line 8?
8 Q. Four to eight.
9 If you look at that, doesn't she say
10 that the analysts' forecast take into account
11 historical and current information?
12 A. Right. Therefore, you don't have to look at
13 anything else. That's what she said.
14 Q. So the analysts already take into account all
15 of the information that is out there; right?
16 A. That's what she says.
17 Q. And they come up with their projections.
18 A. That's correct.
19 Q. And so the projections reflect the analysts'
20 sense of all of the data that's out there.
21 A. According to the analysts, yes. But that's
22 still the analysts' opinion based upon other
23 facts.
24 Q. And that's what you say investors do. They

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1 look at all the information that's out there?
2 A. And form their own opinions, which are not
3 exclusively related to earnings per share
4 forecast. Yes.
5 Q. And analysts are investors; right?
6 A. Some are. Some are not.
7 Q. They're pretty sophisticated people who
8 gather a lot of information; correct?
9 A. Some are. Some are not.
10 Q. They have access to probably more information
11 than regular investors?
12 A. Who?
13 Q. The analysts.
14 A. Oh, the analysts? I'm sorry. We were
15 talking about analysts. It's stockholders a
16 second ago. In my mindset, your question was
17 stockholders, and my answers were in that
18 regard. I apologize for that.
19 Q. I think I'm confused now. Let me take a --
20 A. Shall I say it again?
21 Q. No, let me try --
22 A. Okay. Please. We'll get to it.
23 Q. Okay. Stock analysts look at all the
24 available information in the same manner that

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1 regular investors do; correct?
2 A. Maybe more so. Maybe not. But stock
3 analysts have access to lots of information
4 and presumably consider much of it when
5 making their earnings per share projections.
6 Yes.
7 Q. So the things you said about what investors
8 do, that's what analysts do; right?
9 A. Individual analysts, yes. But the question
10 is: Do investors only consider one analyst's
11 number, which is earnings per share
12 projections? And I say no.
13 Q. But if we took the analyst projections which
14 already incorporate all the historical data,
15 and then we factored in the historical data
16 again, we would effectively be
17 double-counting that historical data,
18 wouldn't we?
19 A. Only to the extent that you can verify that
20 analysts mathematically factored it in.
21 What I'm saying here, and I hope it's
22 clear, is that a savvy, or even a non-savvy
23 investor is not going to make his or her
24 investment decision exclusively based upon

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1 earnings per share forecast of security
2 analysts. That's what I'm saying.
3 Q. Do you know who are -- investors in
4 utilities, those are often -- there's a lot
5 of institutional investors?
6 A. Yes, sometimes.
7 Q. And they utilize those analysts' projections;
8 right?
9 A. Or create their own.
10 Q. After considering all the data.
11 A. Sure.
12 Q. They come up -- a truly sophisticated
13 institutional investor might come up with
14 their own projection of earnings per share.
15 A. Right. And the question is: Is that the
16 only factor they use when making the
17 decisions?
18 Q. So it's your opinion that, say an insurance
19 company that buys a utility's stock and comes
20 up with its own earnings per share
21 projection, after looking at historical
22 dividends, would then give the historical
23 dividends weight yet again, separate and
24 apart from how it came up with the earnings

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1 per share.
2 A. No, that's not what I'm saying. I'm
3 saying -- that's a good example, an insurance
4 company.
5 An insurance company who's required by
6 law and statute to put aside certain money
7 for reserves to ensure that insurance
8 ratepayers will have their claims paid has to
9 go through a lot of due diligence to make
10 sure they're making proper decisions. And I
11 can't imagine an insurance department who
12 would make decisions for common stocks based
13 exclusively on earnings per share projections
14 of the companies. I would be appalled to
15 find that an insurance company that had a
16 policy doing that, because that would be a
17 very naive on their part and very dangerous
18 for my money.
19 There are other factors to consider. I
20 mean, projected growth and dividends.
21 There's lots of things to consider. Doesn't
22 have to be just historic earnings. But
23 there's lots of data out there, and they look
24 at all of it to make decisions to invest

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1 based upon all that, not just a decision to
2 create their own earnings per share
3 projections. That's the distinction.
4 Q. The retention growth -- retention is just the
5 amount of money that the company holds --
6 earnings that it holds to itself after it
7 pays out dividends; right?
8 A. Times return on equity, yes.
9 Q. And the dividend growth is the part of the
10 earnings, let's say, that gets paid out over
11 time; right?
12 A. Say again.
13 Q. The dividend is the part of the accumulated
14 earnings that gets paid out over time;
15 correct?
16 A. Correct.
17 Q. So if you're trying to figure out what you're
18 retention growth and your dividend growth
19 would be, you need to know what your earnings
20 growth would be; right?
21 A. Yeah, but not just your earnings growth.
22 But, yeah, that's one factor, an important
23 factor. And I use that.
24 Q. You can't have retention growth or dividend

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1 growth without earnings; right?
2 A. That's correct. But you use them all.
3 Q. And over time, they are going to match each
4 other; right?
5 A. Not necessarily. They might.
6 Q. How could you have retention and dividends
7 without the supporting earnings?
8 A. You said "match."
9 Q. Over time the earnings growth is going to
10 need to be equal to the retention and
11 dividend growth; right?
12 A. Well, retention rates change over time, as do
13 earnings and dividend -- earnings growth and
14 dividend growth don't grow in tandem.
15 Q. But over time they need to stay together
16 because the earnings are the source of either
17 the dividends that get paid out or the
18 dividends that get retained; right?
19 A. There's certainly a relationship. For
20 example: A lot of electric utilities who
21 used to be -- found themselves as being
22 diversified activities, such as merchant
23 energy generation, once they went that route,
24 they actually reduced their payout ratios

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1 because of a more risky business, and in many
2 cases they lost their shirts doing it. Going
3 back to the utility model, they're increasing
4 their payout ratio again. And Virginia Power
5 is a classic example of that.
6 So they change over time, not just
7 because of change in the earnings per share,
8 but because of change in philosophies.
9 Q. I'm going to try a different topic here just
10 briefly.
11 On Page 10 of your testimony --this is
12 your direct.
13 A. Direct? Sure.
14 Q. You're discussing the situation in the market
15 and investor expectation. You see that?
16 A. Yes.
17 Q. And to support your point that investor
18 expectations are reduced, you've got a
19 footnote. And that footnote refers to an
20 article that says, "S & P Looks to Utilities'
21 ETFs in Downtrodden Equities Market." Do you
22 see that?
23 A. Footnote 1?
24 Q. This is Footnote 2 in my copy, Page 10, at

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1 the bottom. It's an article from On Wall
2 Street.
3 A. I don't have the testimony. I'm sorry. You
4 said Page 10?
5 Q. Yes.
6 A. Sure. Yes, I have that. I see that.
7 Q. So you're relying on that 2011 article about
8 downtrodden equities market?
9 A. I gave it as an example.
10 Q. Yeah. By the way, just for the record,
11 "ETFs" are what?
12 A. Electronic transfer something. I forget
13 exactly what --
14 Q. Electronically traded funds?
15 A. Yeah. It's a new class of stocks is what it
16 is. It's a new way of trading stock.
17 Q. Okay. At the risk of testifying, my sense of
18 it is it's a different kind of mutual fund.
19 Is that fair statement? So in this case, it
20 would contain utility stocks? Is that --
21 A. I'll accept that. I think that's right.
22 Q. All right. So you're discussing investor
23 expectations, and you're supporting it with
24 an article that talks about the downtrodden

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1 equities market; correct?
2 A. As of 2011, yes.
3 Q. In fact, since 2011, since the date of this
4 article, the equities markets have actually
5 not been downtrodden at all. They've been up
6 on the order of about 15 to 20 percent a
7 year.
8 A. Absolutely. They've done very well, and so
9 have utilities. But yes.
10 Q. And I'm interested -- do you have a copy of
11 that article there?
12 A. I have it in my briefcase, not right up here.
13 Q. I printed out a copy. If you want to check
14 to make sure it's the same one that you have,
15 that's fine.
16 A. Yeah. Thank you.
17 (Atty. Camerino hands document to
18 witness.)
19 (By Mr. Camerino)
20 Q. Can you just -- actually let me give it to
21 everybody first.
22 (Atty. Camerino distributes document.)
23 (By Mr. Camerino)
24 Q. Can you just tell me where in that article it

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1 refers to water utilities?
2 A. It makes reference to the so-called "utility
3 sector" without reference to type of utility.
4 Q. Is it fair --
5 A. That's my -- quick perusal, that's what I
6 see.
7 Q. Reading that article, it looked to me like it
8 really is contemplating electric and gas
9 utilities. Do you see all the references
10 to --
11 A. It was -- well, it was probably focusing on
12 it, yes.
13 Q. So you're arguing that investor expectations
14 for returns are down because of the
15 downtrodden market, and by reference to an
16 article about utility ETFs. But in fact,
17 since that article, the markets have
18 rebounded considerably. And the article is
19 actually focused on electric and gas utility
20 performance.
21 A. Right. But the point I made on Page 10 of my
22 testimony is that during the difficult times
23 for the market, utilities did fairly well for
24 the reasons stated, 2011 up until that point

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1 in time.
2 CHAIRMAN IGNATIUS: Mr.
3 Camerino, are you intending to mark this as an
4 exhibit?
5 MR. CAMERINO: I don't need to
6 mark it. That's okay.
7 (By Mr. Camerino)
8 Q. I have one -- I think this will be my last
9 line of questioning.
10 I want to ask you about the relationship
11 between the overall allowed return for a
12 utility and its capital structure.
13 A. Okay.
14 Q. And so I'm going to walk you through some
15 mathematical examples. And I'm going to
16 actually give them to you, and you can check
17 them.
18 A. Okay.
19 Q. But it's just a matter of trying to expedite
20 having you do the math.
21 You have -- and just by way of
22 reference, you have a Schedule 12 in your
23 testimony that shows how you come up with the
24 weighted average cost of capital, where you

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1 take the percentage of debt, you multiply it
2 times the cost of debt, and you get a
3 weighted cost of debt. And then you have a
4 percentage for equity. You multiply it by
5 the cost of equity, and you get a weighted
6 cost of equity.
7 A. Actually, that's Schedule 1, yes.
8 Q. Okay. And the numbers we talk about normally
9 in a case like this are referred to as the
10 "after-tax cost of equity"; correct?
11 A. Correct.
12 Q. When that gets rolled into rates, you have --
13 in order for the investor to earn that, they
14 have to actually earn a higher amount,
15 because they're going to pay taxes on those
16 earnings; right?
17 A. Well, stock -- ratepayers have to pay a
18 higher amount so that the stockholders can
19 pay taxes on it, yes.
20 Q. And those taxes get included in rates; right?
21 A. Yes. Ratepayers pay taxes. Yes.
22 Q. So there's a multiplier -- if we're doing
23 this weighted average cost of capital for the
24 equity component, we need to apply a

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1 multiplier to figure out what the tax effect
2 is.
3 A. Right, which is usually done whether or not
4 taxes are paid. But it's assumed they will
5 be paid.
6 Q. Okay. And I'm asking those questions as a
7 prelude so that you can explain what's on
8 this chart that I'm going to show you.
9 A. Sure.
10 (Atty. Camerino distributing document.)
11 A. Thank you.
12 (By Mr. Camerino)
13 Q. And what you have here, I just want to,
14 before I ask you the questions, tell you
15 where these numbers come from. The first
16 block is the settled -- the proposed
17 settlement capital structure. And it shows
18 the cost of capital calculation using the
19 high end of your DCF, the 9.6 percent.
20 A. Yes. I see that.
21 Q. The second block applies that same cost of
22 equity, but to a 55/45 debt-to-equity ratio.
23 A. Okay.
24 Q. And the third one -- and you see that that

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1 yields a pretax cost of capital -- weighted
2 average cost of capital of 10.59 at the
3 bottom?
4 A. Right. Same as the second one. Uh-huh.
5 Q. Well, I'm talking about the second one now.
6 So you see the second one has a weighted
7 average cost of capital?
8 A. Yes, yes.
9 Q. The third one is the settled capital
10 structure, and it takes that 10.59 percent.
11 And if you look at the Cost column, it's
12 telling you that the cost of equity there
13 would be 10.24 percent. Okay?
14 A. Okay.
15 Q. Now I'm going to ask you questions to make
16 sure that that was done properly. All right?
17 A. Okay. Sure.
18 Q. And I just want to make sure I have the
19 schedule reference.
20 Do you know what the applicable tax
21 multiplier is in this case?
22 A. Not exactly, no.
23 Q. I'm going to represent to you that it's 1.68,
24 meaning that you would multiply the weighted

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1 cost of equity by 1.68 to get the pretax
2 cost. Does that sound reasonable?
3 A. You have it listed here, and I'll accept
4 that. Sure. No problem.
5 Q. So what I want to make sure of is that -- and
6 you can get a calculator now or on a break.
7 But I wanted to make sure if this was done
8 the way I'm describing to you, that it would
9 be correct. All right?
10 So, starting in the first block -- so,
11 the first section up there at the top -- we
12 would take the cost of equity of 40 --
13 weighted equity of 40.75 percent. We would
14 multiply it -- if the Commission found
15 9.6 percent as the cost of equity, we would
16 multiply that to get a weighted cost of
17 3.91 percent?
18 A. Yes.
19 Q. And then we would take that 3.91 and multiply
20 it by the tax multiplier; correct?
21 A. Yes.
22 Q. And so if we did that correctly and the
23 number was 6.57, that would mean that the
24 overall pretax cost of -- weighted cost of

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1 capital would be 10.16 percent; correct?
2 A. Yes.
3 Q. Okay. The second block, if, instead, we did
4 the exact same thing, but the debt-to-equity
5 ratio was 55 to 45 -- and you've testified
6 that that would be quite common; correct?
7 A. It'd be common, yes.
8 Q. We would do the same thing. We would
9 multiply 45 percent by the 9.6 percent, and
10 assuming we did the math right, that would
11 yield 4.32 percent?
12 A. Hmm. Yes.
13 Q. And then we would multiply the 4.32 times the
14 1.68 tax multiplier to give us 7.26.
15 A. I follow your arithmetic, yes.
16 Q. Okay. And so, by virtue -- simply by virtue,
17 a utility coming in with a 55/45
18 debt-to-equity ratio, its weighted average
19 cost of capital would become 10.59 percent;
20 correct?
21 A. That's right, because they would have more
22 equity at stake; therefore, they would
23 deserve more money because they put their
24 money where their mouth was.

<p>[WITNESS: DAVID J. PURCELL] Page 69</p> <p>1 Q. And so the very same company would have a 2 higher allowed overall rate of return simply 3 because it had come in with less debt and 4 more equity. 5 A. Yeah, because they would have put more equity 6 in the company, yes. 7 Q. Right. Now, if you did that, if you came in 8 with that ratio -- I'm sorry. 9 If the goal, instead, was to say, okay, 10 we think 10.59 is a reasonable overall 11 return, if you took this company's actual 12 capital ratios, it would take a cost of 13 equity of 10.24 percent to get to the same 14 result; correct? 15 A. With those assumptions, yes. 16 Q. So if this company had come in with a 55/45 17 cap structure and been awarded a 9.6 percent 18 cost of equity, that would be the exact same 19 result to customers as its current cap 20 structure in a 10.24 percent cost of equity; 21 correct? 22 A. Well, from -- that makes sense, yes. 23 Q. Okay. That's all I'm trying to establish. 24 It's the same result.</p>	<p>[WITNESS: DAVID J. PURCELL] Page 71</p> <p>1 adjustment factor is. 2 (By Mr. Camerino) 3 Q. Mr. Parcell? 4 A. Answer her question? 5 Q. Yes. That's fine. Her question always takes 6 precedence. 7 [Laughter] 8 A. Ms. Ahern maintains it's because -- 9 (By Mr. Camerino) 10 Q. I'm not asking because. I'm asking just the 11 number. 12 A. Then I'm confused. 13 Q. Okay. She suggested a basis point 14 adjustment -- 15 A. Oh, is that what you asked for? 16 CHAIRMAN IGNATIUS: I think you 17 were trying to give her reasons why in your 18 questions. So if we can get back to what did 19 she ask for, that would be -- 20 A. Oh, you mean the actual number. 21 (By Mr. Camerino) 22 Q. Yes. 23 A. I can tell you that. Page 49 of her 24 testimony is 86 basis points.</p>
<p>[WITNESS: DAVID J. PURCELL] Page 70</p> <p>1 A. The numbers are there, but it doesn't reflect 2 the reality of the situation. But the 3 numbers are correct. 4 Q. And that differential would be about 64 basis 5 points; right? 6 A. Yes. 7 Q. Do you recall the adjustment that Ms. Ahern 8 recommended to reflect the higher leverage 9 that this company has than the proxy group? 10 MR. GEARREALD: Objection. 11 That's, I think, discussed in testimony. The 12 Company has a higher leverage, I think that's 13 assumption. 14 CHAIRMAN IGNATIUS: All right. 15 I didn't follow the question well enough. Can 16 you ask again? 17 MR. CAMERINO: The question is: 18 Does he recall the risk adjustment factor that 19 Ms. Ahern recommended to reflect the higher 20 leverage that this company has? 21 MR. GEARREALD: That's what she 22 may have testified to, but that's not a fact. 23 CHAIRMAN IGNATIUS: Well, let's 24 simply ask his understanding of what her risk</p>	<p>[WITNESS: DAVID J. PURCELL] Page 72</p> <p>1 Q. And that was to reflect her -- 2 A. Her financial risk adjustment, yes. 3 Q. Largely or totally associated with the fact 4 that this company has a higher level of debt 5 than the proxy group; correct? 6 A. That's her recommendation, yes. 7 Q. In fact, the average level of debt for that 8 proxy group is less than the 55 percent 9 that's in this example; right? 10 A. Say it again? 11 Q. The average level of debt in the proxy group 12 is less than the 55 percent that's in this 13 example; right? 14 A. Probably so, yes. 15 Q. Okay. And so, to the extent that this 16 example may illustrate a similar type of 17 adjustment, it's not going as far as she did; 18 correct? 19 A. No. Neither one of them are right, but -- 20 Q. I understand you don't agree -- 21 A. -- this is less egregious. 22 Q. I understand you don't agree with it. 23 A. Yeah. 24 Q. But the point is, if I were to plug into this</p>

DAY 2 - AFTERNOON SESSION ONLY - May 24, 2013
DW 12-085 AQUARIUM WATER CO. OF N.H., INC. HEARING REGARDING PERMANENT RATES

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1 example, if I were to have taken that middle
2 block and put in the proxy group's
3 debt-to-equity ratio, I would come up with an
4 even higher pretax cost; right?
5 A. You would, yes. Yes.
6 Q. And then my rate differential line down there
7 would get even bigger; right?
8 A. That would follow, yes.
9 Q. All right. Thank you.
10 MR. CAMERINO: Could we -- I
11 don't think we marked this yet.
12 CHAIRMAN IGNATIUS: We have not.
13 We're up to 32. Can we mark that for
14 identification as 32. And this is developed by
15 Aquarion; correct?
16 MR. CAMERINO: Yes.
17
18 (Exhibit 32 marked for identification.)
19
20 (By Mr. Camerino)
21 Q. And Mr. Parcell, I would ask you, if you
22 decide when looking at this that there's any
23 kind of mathematical error, please feel
24 free to --

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1 A. Just mathematical; right?
2 Q. Yes. I mean, otherwise, I was just trying to
3 ask you about the concept.
4 A. Sure. Thank you.
5 MR. CAMERINO: I think I'm done.
6 But if we could take a very short break,
7 because of the water, I need to just make sure
8 that we didn't use one of my pages for
9 cross-examination to sop things up.
10 CMSR. HARRINGTON: I've heard
11 some excuses before, but that's a good one.
12 CHAIRMAN IGNATIUS: That makes
13 the dog ate my homework...
14 MR. CAMERINO: Did I go too far
15 there?
16 CHAIRMAN IGNATIUS: All right.
17 Let's take five minutes. We'll begin at 2:30.
18 MR. CAMERINO: Thank you.
19 (Brief recess taken.)
20 CHAIRMAN IGNATIUS: All right.
21 So, Mr. Camerino, did you have anything
22 further?
23 MR. CAMERINO: Nothing further.
24 CHAIRMAN IGNATIUS: Thank you.

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1 We turn then to Mr. Ratigan.
2 Any questions?
3 MR. RATIGAN: No questions.
4 CHAIRMAN IGNATIUS: Ms.
5 Hollenberg?
6 MS. HOLLENBERG: Thank you. No
7 questions.
8 CHAIRMAN IGNATIUS: Ms. Brown?
9 MS. BROWN: No questions. Thank
10 you.
11 CHAIRMAN IGNATIUS: Questions
12 from the Commissioners?
13 MR. HARRINGTON: Just a couple
14 questions.
15 INTERROGATORIES BY CMSR. HARRINGTON:
16 Q. I'm trying to get a few things straight.
17 There was a lot of discussion on the
18 financial risk and business risk factors from
19 Ms. Ahern's testimony, the .86 and .40, and
20 in recent discussion of Exhibit 32, when you
21 were talking about the differential basis
22 points there being 64. And you made a
23 comment that neither of them are correct. So
24 I'm trying to find out what your reasoning is

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1 on that.
2 You do recognize, I'm assuming, it seems
3 to be a fact that the debt-to-equity ratio of
4 Aquarion is higher than it is for the average
5 of the proxies used in the analysis?
6 A. That is correct.
7 Q. And given that fact, it would seem as if
8 there should be some adjustment, that the
9 company with the higher debt would be --
10 present more risk than the company with the
11 lower debt. Does that make sense?
12 A. You would think so, yes.
13 Q. Okay. Well, I think you're getting to where
14 I'm heading on this. You would think so, and
15 I guess you don't.
16 A. I don't.
17 Q. So tell us why.
18 A. I don't. This so-called "venture risk
19 adjustment" has also been called a "leverage
20 adjustment" in prior cases. The theory is
21 that, if you have a lower equity ratio, you
22 have more fixed capital costs -- that is,
23 debt -- and therefore, you put stockholders
24 at more risk.

<p>[WITNESS: DAVID J. PURCELL] Page 77</p> <p>1 Where this theory does not work out for 2 Aquarion is that we don't know if this is a 3 true capital structure. It's their book 4 capital structure, but it's controlled by 5 many layers of parents. And in fact, during 6 the -- not at the end of the test period, but 7 during the test period, a substantial amount 8 of that debt was owned by a parent. And 9 there's nothing wrong with that, but the 10 point being that outside companies control 11 this capital structure. They have the 12 ability to put debt into it, to but equity 13 into it. And that's their prerogative. But 14 if you're going to create a subsidiary for a 15 different capital structure and claim a 16 higher cost of equity, you've got to 17 demonstrate that's really the way it's 18 financed, and that is not demonstrated here. 19 The Town of Hampton tried to get some 20 information, and it was just not provided to 21 us. They said it was not relevant. Well, I 22 submit it is relevant if you're going to use 23 that as an excuse or a reason to have a 24 higher cost of equity. You've got to</p>	<p>[WITNESS: DAVID J. PURCELL] Page 79</p> <p>1 risk factor as well. That was involved in 2 the size of the company -- 3 A. Well, this is kind of the other side of the 4 same shoe. And I'm not sure which one's up 5 and which one's down. But what you've got 6 here is a small subsidiary in New 7 Hampshire -- and risk is defined for 8 utilities as a risk of common stock, common 9 shareholders. And there are no shareholders, 10 public shareholders of Aquarion of New 11 Hampshire. You just got to go way up the 12 line. I mean, you got three Aquarion Water 13 companies: Massachusetts, New Hampshire and 14 Connecticut. You've got an Aquarion company 15 above that. You've got Aquarion Utility 16 Holdings above that, which also includes not 17 only the water companies, but the Puget Sound 18 Energy in Washington State; you got Duquesne 19 Light in Pennsylvania, and you've got Hawaii 20 Gas in Hawaii. And that's not the top of the 21 heap. 22 So when you look at the true picture of 23 capital rates, it's a huge company, not a 24 small company. And if you try to make the</p>
<p>[WITNESS: DAVID J. PURCELL] Page 78</p> <p>1 justify, and they have not done so. 2 Q. So if this was a company that was a publicly 3 traded company, where they had stock, in that 4 case you'd agree there be would some 5 adjustment for additional financial risk 6 associated with the higher debt ratio. 7 A. Right. Not a so-called linear adjustment 8 like we saw in Exhibit 32 before, but some 9 adjustment might be necessary for a publicly 10 traded firm with a true market-derived 11 capital structure and market-tested capital 12 structure. 13 Q. And what you're saying here is that there may 14 or may not be a need for some adjustment on 15 the financial risk. You simply -- evidence 16 hasn't been presented to show that the 17 structure of the company with these various 18 holding companies or whatever, or parent 19 companies, that there's no way of telling 20 whether it's needed or not. Is that -- 21 A. That's exactly right. 22 Q. -- what you're saying? 23 A. Yes. 24 Q. And the same thing would apply to a business</p>	<p>[WITNESS: DAVID J. PURCELL] Page 80</p> <p>1 argument, well, it's the use of funds, not 2 the source of funds, the source of the funds 3 is where the money is raised. That's where 4 the risk is derived by the investors and 5 decisions are made as to what the overall 6 risk is. 7 So it's just not appropriate to take a 8 small state subsidiary and say, because -- 9 either a smaller state or we choose not to 10 consolidate with other subsidiaries, it's 11 therefore, smaller. Well, why not take the 12 same company and have Aquarion Water of 13 Hampton, Aquarion Water of North Hampton? 14 They're even smaller. Voila. Bigger rate of 15 return. They can do that. 16 Q. And as far as this -- you know, there's been 17 a lot of discussion in this, as far as risk 18 to investors and so forth. But in this case, 19 there isn't a normal investor. I mean, it's 20 not like you can go out there and say, okay, 21 investor is a mutual fund. We buy their 22 stock, or someone who's buying the utility 23 stock as part of their portfolio. 24 So in your way of thinking, who is the</p>

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1 investors that are at risk that are looking
2 for this return on equity?
3 A. Well, it's ultimately going to be the equity
4 owners, ultimately, because there's just no
5 level down the chute, so to speak, where you
6 can invest in a smaller piece of it.
7 Q. And when you say Aquarion, that's Aquarion
8 Water? Is that the --
9 A. It's the four Aquarions. Three Aquarion
10 Water Companies of... you have Aquarion Water
11 Company, which is the sum of those three; you
12 have Aquarion Company, which is the level
13 above that, and Aquarion Utility Holdings
14 Limited, or something like that. So there's
15 four levels of a company called Aquarion.
16 Q. And which one of those do you consider are
17 the investors that are looking for their
18 return on equity?
19 A. We haven't even started yet. We've got to go
20 from there all the way to the parent owner in
21 Australia to get the ultimate source of
22 equity.
23 CHAIRMAN IGNATIUS: Mr.
24 Camerino.

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1 MR. CAMERINO: I just want to
2 alert the Commission that this witness is
3 testifying at length about the corporate
4 structure of Aquarion incorrectly, almost
5 completely incorrectly. And so we need to find
6 a way for -- and I'd hate for it to lead to a
7 rebuttal witness, to have someone come in and
8 give the corporate structure, because we're
9 getting a record filled with this witness's
10 best answer. I understand that. But there
11 were extensive discussions about other
12 utilities and the like that is just 100 percent
13 incorrect.
14 CHAIRMAN IGNATIUS: Well,
15 there's a portion, Mr. Parcell, in your
16 testimony, I think it's either an attached data
17 request or part of your testimony that does lay
18 out your understanding of the levels of
19 ownership; correct?
20 THE WITNESS: Page 11. That's
21 correct.
22 CHAIRMAN IGNATIUS: Of your
23 direct or --
24 THE WITNESS: Direct testimony,

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1 Page 11, top portion of the page.
2 CHAIRMAN IGNATIUS: Oh, okay.
3 It's not a chart, but just in text?
4 THE WITNESS: Right. But
5 there's a chart in response to Hampton 3-4 that
6 shows the same information.
7 CHAIRMAN IGNATIUS: And I
8 assume, Mr. Camerino, that if you found issue
9 with his description, you would have raised
10 that on cross-examination?
11 MR. CAMERINO: This statement is
12 correct. It's completely at odds with what he
13 just said, and he's not able to correct it
14 because he doesn't know.
15 CHAIRMAN IGNATIUS: I want to
16 take these one step at a time.
17 I asked you if you found any
18 fault with his description on Page 11, and it
19 sounds like you did not.
20 MR. CAMERINO: Well, we will
21 double-check it, but I believe it is correct.
22 CHAIRMAN IGNATIUS: All right.
23 Then let's -- unless, Mr. Parcell, you think
24 what you stated in writing is incorrect and

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1 need to correct that, I'm assuming what you
2 wrote in the text is reliable.
3 THE WITNESS: It was provided by
4 the Company.
5 CHAIRMAN IGNATIUS: All right.
6 Then why don't we strike your description of
7 the levels of the different ownership structure
8 that you spoke to just a few moments ago and
9 stick with the description on Page 11 of your
10 testimony.
11 THE WITNESS: Sure.
12 CHAIRMAN IGNATIUS: Now, I think
13 you were also saying other things on what the
14 Company could or couldn't do to create another
15 form of structure. I think that's fair game,
16 and that was just speculation on what else
17 might be available.
18 But Mr. Camerino, if your
19 concern is that the description of the
20 different companies was not matching what was
21 on 11, then we'll stick with what's at the
22 top of Page 11.
23 MR. HARRINGTON: And just to be
24 clear, my line of questioning was not to get

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1 into the level of detail of that, but, rather,
2 just try to get a feel for the difference
3 between this and a company that would be traded
4 publicly. Limited just to that. So I think
5 I'm done with that line of questioning,
6 anyways.
7 BY CMSR. HARRINGTON:
8 Q. One question I also wanted to do is, in some
9 of your previous, I guess expert testimony,
10 there was a series of exhibits there, 30 and
11 31 and so forth. And in a lot of those you
12 did not incorporate the CAPM into the average
13 to calculate the --
14 A. Correct.
15 Q. So am I correct, if you use that same
16 methodology in this case without
17 incorporating the CAPM, would the recommended
18 ROE be 9.4 percent?
19 A. That's probably correct. Let me just confirm
20 that.
21 (Pause in proceedings)
22 A. Yes. You said two midpoints of DCF... would
23 be 9.4 percent. That's correct.
24 MR. HARRINGTON: That's all the

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1 questions I have. Thank you.
2 CHAIRMAN IGNATIUS: Thank you.
3 Commissioner Scott.
4 CMSR. SCOTT: Yes. Thank you.
5 INTERROGATORIES BY CMSR. SCOTT:
6 Q. Good afternoon.
7 A. Good afternoon.
8 Q. Earlier, when Ms. Ahern was on the stand,
9 there was a document produced which became
10 No. 27, which basically -- Exhibit 27, which
11 basically was an analysis of, if I understand
12 it right, her recommendations for different
13 cases compared to what was actually -- what
14 the various commissions actually approved for
15 an ROE.
16 A. Right.
17 Q. I was just curious. Since we got the benefit
18 of that analysis for some of her
19 recommendations, if we were to do the same
20 thing for your history, can you characterize
21 that?
22 A. Sure. I can provide -- I have information.
23 I don't have that chart, but I have a -- I
24 call it my score card. I have a list of

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1 every case since 1972 that I've ever
2 testified in and what the company asked for
3 and what I recommended and what was
4 authorized. And I would -- I have a copy
5 with me and would be glad to make that
6 available.
7 Q. Or can you just characterize it? Is it
8 generally a little bit lower, a little bit
9 higher, right on, on average?
10 A. I would say... it be hard to generalize it.
11 A lot closer than hers. Probably a good
12 portion of mine, the awards were within my
13 range. But not all the time. But at least
14 half.
15 Q. Is it biased one way or another, higher or
16 lower than --
17 A. I would say tend to be lower. Certainly not
18 144 basis points, but lower.
19 Q. Thank you. That's helpful.
20 And again, back to the questioning I had
21 with Ms. Ahern on WICA impact. And that's
22 been discussed back and forth. I know your
23 analysis -- I think I got pretty clear you
24 didn't include an analysis of WICA.

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1 A. Correct.
2 Q. Is it, in your opinion, a fair -- and again,
3 this is probably oversimplification -- a fair
4 assumption that having a WICA would reduce
5 risk for a utility?
6 A. I missed the word there before "WICA." The
7 what --
8 Q. If a utility had a WICA --
9 A. Oh, had, yes.
10 Q. -- that that would tend to reduce --
11 A. Yes. I mean, other things equal, if you had
12 to create a regulatory mechanism that
13 increases cash flows, shortens the time where
14 you can change rates, makes earnings more
15 stable, that's beneficial to a company, and
16 to a certain extent it involves a transfer of
17 risk from ratepayer -- I mean from the
18 stockholder to the ratepayer. The ratepayers
19 take on some of that risk. And to the extent
20 that they take on a level of involuntary
21 risk, they should be compensated for that by
22 paying in lower term equity.
23 Q. So I think you just answered where I was
24 going.

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1 So, all things being equal, there should
2 be some --
3 A. Some risk reducing, yes.
4 Q. So there should be -- all things being equal,
5 your opinion is there would be a somewhat
6 lower return on equity with such a system in
7 place.
8 A. Yes. With that type of mechanism, yes. Yes.
9 Q. But you haven't gone as far as analyzing what
10 that might be.
11 A. No, I have not.
12 CMSR. SCOTT: I think that's all
13 I have. Thank you.
14 INTERROGATORIES BY CHAIRMAN IGNATIUS:
15 Q. Mr. Parcell, when you were asked about this
16 Exhibit 32 developed by the Company, you
17 agreed with the math of it, but you didn't
18 endorse it as something that you thought was
19 sound. So can you explain a little more
20 what --
21 A. I have two 32s on my desk. I think
22 that's --this is the real 32, isn't it?
23 Q. That's the real 32.
24 A. Oh, okay.

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1 Q. The other one was not marked, the
2 resolution --
3 A. Oh, okay. I apologize.
4 Q. -- because it was already contained in other
5 people's testimony.
6 A. I'm with you. Thank you.
7 Q. Now, you actually described 32 as less --
8 that one situation was "less egregious" than
9 the Company's proposal to begin with. So,
10 can you just elaborate on what you find
11 troublesome about what was presented in this
12 32 chart?
13 A. Yes. It assumes that because this company
14 and its parent companies have collectively
15 chosen to finance the company the way it is,
16 that they should be compensated for that
17 lower equity ratio with a higher return on
18 equity. That's what it assumes. And I
19 disagree with that assumption.
20 Q. When you say when the parent company's
21 "chosen to finance the company the way it
22 has," you're referring to the high debt as
23 compared to equity?
24 A. Right. In other words, as this company

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1 spends money, it can finance it internally
2 through retained earnings, profits, or
3 externally through either raising debt or
4 equity. It could raise debt either as an
5 affiliate or from a public source like an
6 insurance company. And it can raise equity,
7 but only equity can come from a higher
8 affiliate, whether in the form of common
9 stock flowing down or lack of dividends
10 flowing up. But it's a corporate decision
11 they've made, and they have a right to make
12 that decision.
13 Q. Did you say that the Connecticut structure is
14 of a similar level of debt, the Connecticut
15 affiliate?
16 A. Well, there was, at their request, supplied a
17 Standard & Poore's report on Aquarion of
18 Connecticut. And in that it cites their
19 equity ratio being virtually the same,
20 42.1 percent.
21 Q. And do you know anything about the
22 Massachusetts affiliate?
23 A. I do not.
24 Q. On Page 13 of your direct testimony,

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1 Exhibit 13 --
2 A. Yes, ma'am.
3 Q. -- at line -- the answer at Lines 19 through
4 22, in the middle of that you say that the
5 capital structure may not represent the
6 effective capital structure of the Company.
7 What do you mean by that?
8 A. Well, since we have debt coming from time to
9 time from a parent source, we don't know if
10 that debt is debt or equity or some
11 combination, you know, the source of the
12 funds. I don't -- they have a right to
13 finance the company the way they want to.
14 But as regulators, you have a right to hold
15 them to a certain standard that shows us a
16 marketable capital structure. As an
17 intervenor, we have a right to try and see
18 what their affiliates are. And we were not
19 provided that, so we have no way of knowing.
20 Q. What would you have looked at if you'd been
21 able to obtain more data on the affiliated or
22 parent companies?
23 A. Capital structures of the different levels,
24 both horizontal and vertical.

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1 Q. What would that have shown you? Why is that
2 important?
3 A. If would have shown you how the company is
4 financed at the same level that investors
5 invest money into it. In other words, if you
6 had a large company that was 50 percent debt
7 and 50 percent equity, that's the market
8 capital structure of the whole enterprise.
9 But if the subsidiary had 75 percent debt and
10 25 percent equity, you wouldn't know until
11 you had further information if that's the
12 true capital structure of that company. It's
13 the book capital structure. But is that the
14 way it's truly financed in the grand scheme
15 of things, of how the enterprise is financed?
16 Q. There's been quite a lot of back and forth in
17 the written testimony and today over some of
18 the components you used in the DCF and the
19 ones that Ms. Ahern did when she made
20 corrections to your calculations.
21 But correct me if I'm wrong. The end
22 result with the corrections today is that you
23 came to a midpoint of -- excuse me -- 9.3,
24 and she came to a midpoint of 9.43 on DCF?

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1 A. Yes.
2 Q. So you --
3 A. That's a first for us.
4 Q. You may have gotten there, but it's a
5 slightly different mechanism --
6 A. We'll be put out of business if we keep this
7 up.
8 [Laughter]
9 Q. You also, I'm sure, know that the New
10 Hampshire Commission, for years, has used the
11 DCF method --
12 A. Yes, I've seen that.
13 Q. -- almost exclusively. And you've argued
14 that you need to do more than that one alone.
15 In your opinion, what's lost by using
16 only DCF?
17 A. Well, I think if you just used one method,
18 over time, if that method changes a little
19 bit, you have nothing to compare it to. It's
20 sort of standard. And I have seen this
21 Commission make reference to the CAPM end
22 result as a "check" to a DCF.
23 But repeatedly I've seen your orders say
24 that you primarily use the DCF. I think it's

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1 important to look at other methods. If the
2 other methods give you comfort, then stick
3 with the DCF. But I think it's nice to look
4 at them.
5 Plus, in my situation in this particular
6 case, where I'm, I'll call it a first round,
7 if you will, of a cost accountant testimony,
8 I had to somewhat anticipate what else might
9 come down the pike. If I just put in one,
10 and the company on rebuttal added something
11 else, my client would not have been well
12 served by me.
13 Q. And am I right that, if you use your DCF
14 alone, the midpoint would be 9.3; if you used
15 your DCF and the comparable earnings
16 together, it would be 9.4?
17 A. That is correct.
18 Q. And it drops down if you also include the
19 CAPM, and then it would drop down to 8.3.
20 A. That is correct.
21 CHAIRMAN IGNATIUS: All right.
22 I have no other questions.
23 Anything else from the Bench?
24 (No verbal response)

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1 CHAIRMAN IGNATIUS: All right.
2 Then, Mr. Gerreald, any redirect?
3 MR. GEARREALD: No, thank you.
4 CHAIRMAN IGNATIUS: All right.
5 Thank you, Mr. Parcell. You're excused. I
6 appreciate your testimony.
7 What is next on our agenda?
8 MR. RATIGAN: I think it's Mr.
9 Landman.
10 CHAIRMAN IGNATIUS: That's fine
11 with me. Is that acceptable with everyone?
12 (No verbal response)
13 MR. CAMERINO: While they're
14 getting ready -- and this is a
15 separate question --
16 CHAIRMAN IGNATIUS: Okay. You
17 can go ahead and get set up if you'd like.
18 MR. CAMERINO: We're
19 contemplating with how to the deal with the
20 record that was created there, in terms of the
21 ownership structure and obviously being very
22 mindful of where we are in the schedule of the
23 day. And one of the things we could offer, and
24 it's not a complete fix, but there is a

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1 response to a data request from the Town of
2 Hampton provided that shows, at least on a
3 chart, the basic corporate structure. It
4 doesn't fix all of the things that were said
5 about the other utilities in other parts of the
6 country, but I believe that it was this answer
7 that was the basis of Mr. Parcell's testimony.
8 CHAIRMAN IGNATIUS: Either that
9 or something like that is already in the
10 record, because I've seen it.
11 MR. GEARREALD: This is in the
12 record attached to our Selectmen Bean's
13 testimony as Exhibit 1. So it's in the record.
14 MR. CAMERINO: So at least with
15 regard to that, that was Hampton 3-4 that I'm
16 referring to, in case you wanted to reference
17 that.
18 CHAIRMAN IGNATIUS: Right.
19 Thank you.
20 MR. CAMERINO: Thank you, Mr.
21 Gerreald.
22 MR. GEARREALD: Sure.
23 CHAIRMAN IGNATIUS: Okay. Thank
24 you.

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1 (WHEREUPON, ROBERT J. LANDMAN was duly
2 sworn and cautioned by the Court
3 Reporter.)
4 EXAMINATION
5 BY MR. RATIGAN:
6 Q. Please state your name for the record.
7 A. My name is Robert J. Landman.
8 Q. And where do you live, Mr. Landman?
9 A. I live in North Hampton.
10 Q. Do you have a position with the North Hampton
11 town government.
12 A. Yes. I'm the co-chairman of the North
13 Hampton Water Commission. I have been for a
14 number of years. I'm also a member of the
15 zoning board, former member of the planning
16 board, and Rockingham Regional Planning
17 Commissioner, and Chairman of the Rockingham
18 Region Planning Commission.
19 Q. Could you briefly state your professional
20 qualifications.
21 A. Yes. I'm an electrical engineer. I'm a life
22 senior member of the IEEE, the Institute of
23 Electrical and Electronics Engineers. I own
24 a business, a manufacturing company. I have

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1 some -- for 34 years. And my major in
2 college was in physics, but I worked as a
3 electrical engineer.
4 Q. Have you participated in prior dockets
5 regarding the Aquarion Water Company?
6 A. Yes, I have. And also --
7 Q. Have you participated in prior dockets
8 involving the Aquarion Water Company and its
9 predecessors?
10 A. Yes, I have, and also the prior companies.
11 Q. You've prepared prefiled testimony?
12 A. Yes.
13 Q. Do you have any corrections to make?
14 A. Yes, I do.
15 On page -- well, there's no page number.
16 But it's the -- well, it's the third page,
17 which begins, "Do you have a proposal to
18 eliminate this subsidy by non-water customer
19 taxpayers?"
20 And the last paragraph, where it begins,
21 "It is noteworthy," on the line, "separate
22 public fire protection charge," I wish to
23 amend that by adding -- what I meant to say
24 was "for fire protection within the city's

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1 boundaries."
2 Q. So on the third page of your testimony, in
3 the second to the last sentence on that page,
4 it would read, "It is noteworthy that neither
5 Manchester nor Nashua has a separate public
6 fire protection charge for fire protection
7 within the city's boundaries"?
8 A. Yes, within the city's boundaries. That's
9 what I meant.
10 Q. Do you have any changes to your testimony?
11 A. No, I -- no, I do not.
12 Q. Could you address briefly North Hampton's
13 concerns about the fire protection category?
14 A. Yes. The problem has been, for many years,
15 that the rate has been going up for water --
16 for fire protection. We're a very small
17 town. We have 47 hydrants. We have about
18 two to three structure fires a year.
19 As an engineer, some of my colleagues in
20 the Commission, one of them is also a
21 mechanical engineer/Ph.D., we don't believe
22 that the Company's argument that the fire
23 charge is appropriate. We believe it's
24 excessive. We have looked throughout the

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1 country for similar charges, and not only in
2 New Hampshire, but throughout the country.
3 We find the prices are very low. They're
4 fire charges of \$150, \$200 a year. There
5 have been studies.
6 The argument that the piping and the
7 tanking and so forth that they have provided
8 for a three-hour fire flows at 3,000 gallons
9 a minute for three hours, by the Company's
10 own testimony this week, it's clear, with
11 2.75 million gallons of water available --
12 and the biggest structure fire ever was on
13 the beach, and they used about
14 250,000 gallons, which is one-tenth of the
15 tank -- the idea that the pipe size -- and
16 Mr. Walsh brought in the matter of the pipe
17 size -- and looking around the country at
18 various utilities, and some of my
19 customers -- by the way, I'm in the electric
20 utility business. I manufacture fiber optic
21 communications equipment for electric
22 utilities, and not just electric, but water
23 and gas in small towns like in South Dakota
24 and in cities like San Francisco -- Pacific

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1 Gas & Electric Company is my biggest
2 customer, and Disney World, Florida, is one
3 of my customers -- so I'm very familiar with
4 this business with municipal and private
5 companies. And what they do is they -- about
6 10 to 15 percent of the capacity of the
7 utility is for fire protection, and that
8 includes tanks and piping.
9 We, in fact, asked at a technical
10 session what would happen -- we pay \$1551 per
11 hydrant per year right now.
12 CHAIRMAN IGNATIUS: Mr. Landman,
13 hold on a second.
14 THE WITNESS: Yes.
15 MR. TAYLOR: I just want to note
16 that everything Mr. Landman said for the last,
17 you know, say minute or so is completely
18 outside the bounds of his direct testimony.
19 It's not contained within his testimony here.
20 This is all new information or new opinion
21 that's coming in. And so I just want to note
22 that for the Commission. I think we've been
23 pretty good with all the other parties about
24 keeping our direct testimony -- either

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1 foregoing them entirely or keeping them to a
2 summary of what's in the direct, and I think
3 Mr. Landman should be held to the same
4 standard.
5 MS. HOLLENBERG: I'm going to
6 formally object to it, actually, and not just
7 note it. Thank you.
8 CHAIRMAN IGNATIUS: So are you
9 asking that what he's been saying be stricken?
10 MS. HOLLENBERG: No, ma'am.
11 Well, what I'm asking is that he be kept to the
12 same requirements that the other parties have
13 been kept to. His testimony is four pages
14 long. I mean, in order to summarize it, I
15 don't think that we need to go into information
16 that's not contained and discussed within his
17 testimony.
18 CHAIRMAN IGNATIUS: Mr. Ratigan.
19 MR. RATIGAN: I said the word
20 "briefly." So I -- don't look at me.
21 [Laughter]
22 THE WITNESS: I guess you'd look
23 at me.
24 CHAIRMAN IGNATIUS: It was quite

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1 a sentence, I have to say, and you weren't
2 done. Well, I think it is going into a lot of
3 things beyond what you stated. And we do have
4 your written testimony. There may be some
5 questions about why you have the views that you
6 do --
7 THE WITNESS: You can -- excuse
8 me, Madam Chair. You can look at my prior --
9 the technical sessions, the comments I've made
10 over the years, basically repeating that. So
11 it's in the record.
12 MR. RATIGAN: Madam
13 Commissioner, I'll ask more pointed and
14 directed questions. And I'll be brief.
15 BY MR. RATIGAN:
16 Q. Is there something about the demographics
17 about North Hampton and its land use that
18 raises additional concerns?
19 A. Yes.
20 MS. HOLLENBERG: I'm going to
21 object. I'm sorry. I really don't think
22 there's a need for direct on a four-page
23 testimony.
24 CHAIRMAN IGNATIUS: Well, we can

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1 explore what's in the written testimony. We
2 don't need it restated now.
3 THE WITNESS: Okay. Fine.
4 CHAIRMAN IGNATIUS: I think it's
5 really just a quick summary, if there's
6 anything further to add.
7 BY MR. RATIGAN:
8 Q. Okay. Fair to say that the fact that North
9 Hampton, 50 percent of its landowners or
10 residents are not on public fire protection
11 and are not customers of Aquarion, does that
12 drive some of North Hampton's concerns?
13 A. Yes, that's correct. Much of the town is not
14 served by the Company. It's rural.
15 Basically, the west side of Route 1 does not
16 get water service.
17 Q. Drawing your attention to Page 12 and 13 of
18 the Commission's order in the prior rate
19 case, which is DW 08-098, which I passed out
20 to the Commission the other day, if you could
21 just -- we went over this a little bit with
22 the Commission, and I just wanted to draw
23 your attention to Page 13.
24 Is it your understanding that, if I read

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1 the last sentence of the last full paragraph
2 of Page 13, the Commission writes that, We
3 will revisit the allocations among customer
4 classes at the time of Aquarion's next cost
5 of service study, is your understanding that
6 the adjustments to the fire protection class
7 that were adopted in that case would continue
8 until there was a fire -- a cost of service
9 study?
10 A. Yeah.
11 MS. HOLLENBERG: Objection.
12 This goes beyond his testimony. There's no
13 mention in the prefiled testimony about relying
14 on the Commission's prior order as a basis for
15 continuing the allocation that existed in the
16 last case.
17 CHAIRMAN IGNATIUS: Well, I'm
18 not sure I'd agree with that. If you look at
19 the second question, I'm not sure if I'm
20 following -- if we're mixing apples and
21 oranges, but --
22 MR. RATIGAN: No, I think you're
23 right.
24 CHAIRMAN IGNATIUS: So I'll

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1 allow the question.
2 A. Yes, certainly. We expected the same
3 treatment until the next cost of service
4 study.
5 BY MR. RATIGAN:
6 Q. And that's not the treatment that's proposed
7 in the settlement agreement. The settlement
8 agreement is silent on the issue; is that
9 correct?
10 A. No.
11 Q. Do you have an understanding of whether
12 there's an objection from the Company to the
13 continued treatment for --
14 MS. HOLLENBERG: Objection.
15 CHAIRMAN IGNATIUS: On what
16 basis?
17 MS. HOLLENBERG: On the same
18 basis, that it's exceeding his prefiled direct
19 testimony.
20 CHAIRMAN IGNATIUS: And Ms.
21 Hollenberg, would you say that he has no
22 opportunity to comment on the settlement
23 agreement terms?
24 MS. HOLLENBERG: I guess I

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1 wouldn't say that.
2 BY MR. RATIGAN:
3 Q. Do you have an understanding of whether the
4 Company objects to the continued treatment
5 from that last rate case?
6 A. I do have an understanding that they object
7 to it.
8 MR. TAYLOR: I -- oh, I'm sorry.
9 A. Excuse me. I do.
10 BY MR. RATIGAN:
11 Q. What's your understanding?
12 A. That they want to change it. That they want
13 to change the percentage. That's what I'm
14 understanding. It's been a long hearing and
15 I'm a little tired and very confused at this
16 point, especially with the objections that
17 are coming up. I may be confused at this
18 point.
19 MR. TAYLOR: Well, I'm just
20 going to object, because he's making a
21 representation about -- again, this is not
22 something that's addressed in his direct
23 testimony. I mean, the Company's direct
24 testimony is what it is. And, you know, we

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1 don't take issue with that. But he's, again,
2 making some representations about objections on
3 behalf of the Company. So --
4 THE WITNESS: Excuse me. But
5 right in my direct testimony I talk about the
6 last rate case, "70 percent of the cost of
7 service study full application of fire demands
8 was adopted, with the resultant reduction in
9 public fire revenues. We would propose that
10 the cost of service study be reduced further
11 than [sic] 70 percent." I'm talking about the
12 numbers. I don't see where you're saying I
13 didn't discuss them. It's in my direct
14 testimony, sir.
15 MR. TAYLOR: No, I'm...
16 CHAIRMAN IGNATIUS: I think the
17 concern is representing what you think the
18 Company's point of view is going forward.
19 THE WITNESS: Oh, yeah.
20 That's...
21 CHAIRMAN IGNATIUS: We know what
22 your position is. We know that the settlement
23 as proposed doesn't talk about a changed
24 allocation. It doesn't guarantee that it won't

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1 be changed. But that would be an issue for the
2 next cost of service study and next rate case.
3 Correct? I guess I'm looking
4 to the signatories to the settlement
5 agreement.
6 MS. BROWN: Staff would not take
7 that position.
8 MS. HOLLENBERG: I'm not sure I
9 followed what you said. I'm sorry.
10 MS. BROWN: To the extent you
11 are asking if the parties are in agreement that
12 the last order in 08-098 states that we will
13 revisit -- that we are precluded from
14 revisiting rate design until they file a cost
15 of service study, then Staff would not agree
16 with that.
17 CHAIRMAN IGNATIUS: And you're
18 right. And you made that distinction
19 yesterday. I'm just trying to understand so
20 that we can keep moving here.
21 There is nothing in today's
22 proceedings -- and correct me if I'm wrong.
23 There's nothing in today's proceedings that
24 change the allocation that's established in

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1 the 08-098 case; is that correct?
2 MS. HOLLENBERG: My
3 understanding is that the Company is proposing
4 an across-the-board allocation of the revenue
5 requirements. I don't know if that answers
6 your question.
7 CHAIRMAN IGNATIUS: Is that the
8 same or different from the prior order?
9 MR. RATIGAN: It's different
10 from the prior order.
11 MS. HOLLENBERG: Yes, ma'am.
12 MR. RATIGAN: Yes, it is
13 different. And yet, the prior order, I think,
14 which was not appealed by anyone, put the
15 parties on notice that there would be no
16 changes until there was a new cost of service
17 study.
18 MS. HOLLENBERG: And the OCA
19 would respectfully disagree that there's not a
20 good-faith argument that the Commission would
21 revisit that in this case.
22 MR. RATIGAN: And I guess the
23 only other thing I would add is -- and I'm done
24 with this witness.

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1 But, you know, I have an
2 e-mail from you saying that Staff, you
3 know -- we talked --
4 MS. HOLLENBERG: Objection.
5 MS. BROWN: I'd be happy to
6 reiterate what Staff's position is with respect
7 to whether they are precluded from revisiting
8 rate design.
9 Staff, in participating in the
10 partial settlement agreement, would recommend
11 the increase in revenue requirement be
12 applied equally to all classes and that there
13 not be only, say, 70 percent allocation of
14 that increase to fire protection.
15 MR. RATIGAN: I guess this is
16 kind of Alice In Wonderland. I have an e-mail
17 from you saying that it was agreeable. We
18 talked about that, that you would go with the
19 allocation from the last case. I have a
20 statement from --
21 MR. TAYLOR: And I'm going to
22 object. This is going into settlement
23 discussion. And if he wasn't able --
24 MR. RATIGAN: We weren't --

DAY 2 - AFTERNOON SESSION ONLY - May 24, 2013
DW 12-085 AQUARION WATER CO. OF N.H., INC. HEARING REGARDING PERMANENT RATES

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1 (Court Reporter interjects.)
2 MR. RATIGAN: We weren't invited
3 to the settlement discussion on this issue
4 where they settled -- no one contacted me.
5 When the three of you addressed your issues, I
6 was not contacted. I was not brought into
7 that. So don't tell me that they were part of
8 settlement discussions which I was involved in.
9 MR. TAYLOR: If I may, I just
10 want to make my representation. Mr. Ratigan
11 was about to discuss an e-mail that I had sent
12 to him. And my understanding at the time was
13 that there was some sort of settlement being
14 negotiated. I communicated our position at
15 that time. And so I don't want to speak for
16 the Staff. I don't know what happened. But I
17 just was trying to put a stop to that, because
18 that seemed to me to be communications between
19 attorneys. I didn't expect that we would be
20 discussing them in the hearing today.
21 MR. RATIGAN: I was a party to
22 the second round --
23 CHAIRMAN IGNATIUS: I
24 understand. You made that point. Hold on.

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1 Ms. Hollenberg, something you
2 want to say? Because what I'm inclined to do
3 is take a break and let everybody have a
4 discussion about what all of this is. It
5 doesn't need to be all transcribed. We
6 absolutely should not have settlement
7 positions being discussed publicly. And so,
8 unless this is sort of a tempest in a teapot
9 and we're going to move on -- sounds like
10 it's more significant than that -- it would
11 make sense to have the parties and Staff
12 caucus and figure out where exactly you are
13 and make a recommendation on how to -- if
14 there's issues that haven't gotten out that
15 need to get out, you want to do that. I
16 mean, this isn't a game. We're not trying to
17 catch anyone. And we just want to get the
18 facts out and have the record sound. So
19 there may be a misunderstanding or a
20 miscommunication. I'm not sure. But would
21 that be acceptable, or is there something
22 else, Ms. Hollenberg, you wanted to say?
23 MS. HOLLENBERG: I'm happy to
24 have a discussion with the parties and take a

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1 break. I think this would be a good time to do
2 that. I would just note that Mr. Naylor did
3 testify on the stand yesterday that Staff was
4 proposing an equal distribution of the -- or an
5 equal allocation of the revenue requirement.
6 CHAIRMAN IGNATIUS: Yes, he did
7 say that.
8 All right. Then let's take a
9 break for 15 minutes.
10 THE WITNESS: Excuse me, Ma'am.
11 Did the Commission want to ask me any
12 questions?
13 CHAIRMAN IGNATIUS: We may.
14 You're not done.
15 THE WITNESS: Okay. Just
16 curious.
17 (Whereupon a brief recess was taken at
18 3:12 p.m., and the hearing resumed at
19 3:37 p.m.)
20 CHAIRMAN IGNATIUS: So are we
21 picking up where we left off, or is there
22 anything that we need to --
23 MR. RATIGAN: I have two
24 questions for Mr. Landman.

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1 And we had a very productive
2 discussion, and the Staff will be putting on
3 Mr. Naylor to explain an issue, which I think
4 there was a little bit of collective
5 misunderstanding, a good portion of which was
6 mine, and we'll go from there.
7 CHAIRMAN IGNATIUS: Good. Thank
8 you.
9 BY MR. RATIGAN:
10 Q. Mr. Landman, is it your understanding that
11 this rate treatment for fire protection as to
12 existing plant in service is receiving that
13 coverage presently?
14 A. Yes, it is my understanding.
15 Q. Does North Hampton have a position as to
16 whether they'd like to see that treatment
17 continue as to new plant?
18 A. Yes, we would.
19 Q. What's position?
20 A. We would like it to continue to -- to be
21 extended to new plant.
22 Q. Okay. And for the record, does North Hampton
23 adopt the testimony of Mr. Parcell?
24 A. Yes, we do.

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1 Q. Thank you very much. Nothing further.
2 CHAIRMAN IGNATIUS: Thank you.
3 So, questioning from -- why
4 don't we just go around the room. Mr.
5 Taylor?
6 MR. TAYLOR: I have no questions
7 for Mr. Landman.
8 CHAIRMAN IGNATIUS: Mr.
9 Gearreald.
10 MR. GEARREALD: Thank you. I
11 have none either.
12 CHAIRMAN IGNATIUS: Ms.
13 Hollenberg.
14 MS. HOLLENBERG: Thank you.
15 Yes, I do.
16 EXAMINATION
17 BY MS. HOLLENBERG:
18 Q. Good afternoon, Mr. Landman.
19 A. Good afternoon.
20 Q. Do you have any experience or education in
21 the field of utility ratemaking?
22 A. Utility ratemaking, a little bit, in that I
23 have been a commissioner for a number of
24 years and I had worked for a utility. I

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1 worked for Pacific Gas & Electric Company in
2 San Francisco, and that goes back many years,
3 to an organization called TURN, which stands
4 for Towards Utility Rate Normalization. And
5 it was the beginning of the Office of
6 Consumer Affairs. And Sylvia Siegel founded
7 it, and I know her. So, yes, I have some
8 understanding of it.
9 Q. Thank you.
10 Did you -- do you have -- how about in
11 the area of utility cost of service? Did
12 you -- have you received any education in how
13 to perform a cost of service study?
14 A. I have not received any education other than
15 reading, talking with Mr. Costello, who did
16 the one on the fire protection years ago. We
17 had a session in town with our counsel and
18 our consultants, and we went into great
19 detail. Another member of my board is a
20 Ph.D. mechanical engineer and experienced in
21 flow modeling and so forth. So, between the
22 two you us, you know, we certainly argued it
23 back and forth with Mr. Costello about cost
24 and so forth. And we've done a lot of

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1 reading on the subject. Being commissioners,
2 we want to be informed. I mean, it's not
3 our -- you know, we try to be informed as to
4 what other utilities are doing and what the
5 norms are.
6 Q. Okay. Thank you.
7 You did not conduct a cost of service
8 study concerning Aquarion's proposed revenue
9 requirement increase, did you?
10 A. No, we did not.
11 Q. And in your testimony, you did not quantify
12 the impact of the town's proposal on metered
13 rates, did you?
14 A. On metered rates... we did consider -- we did
15 talk about it, and we --
16 Q. I'm sorry. Did you do that in your testimony
17 was my question.
18 A. No. No, I did not. Excuse me. It's my --
19 I'm confusing it with the technical sessions,
20 where we have been proposing metered rates,
21 you know, and monthly reads before the
22 Commission and so forth for many years, for
23 water conservation.
24 Q. But just for clarity, the impact, the

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1 financial impact of the town's proposal is
2 not quantified in your testimony; is that
3 correct?
4 A. It is not, no.
5 Q. Okay. And just for clarity, also, you
6 mentioned recommending that the Commission
7 actually further decrease the allocation of
8 the revenue requirement from 70 percent to
9 50 percent in your written testimony. Is it
10 correct that you're no longer recommending
11 the 50 percent allocation?
12 A. We are agreeing to the current -- because of
13 the discussion we had with the break here,
14 we're going along with the group that has --
15 we're willing to accept the 70 percent. I
16 mean, you know, we would have preferred less.
17 But we're accepting the 70 percent be
18 continued until the next cost of service
19 study.
20 Q. And along the lines of quantification of the
21 impact of the town's proposal, there's no
22 quantification in your testimony of how much
23 money will be shifted from public fire
24 customers to other customers if the town's

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1 proposal is approved; is that correct?
2 A. There is not. When you say "other
3 customers" --
4 Q. Metered customers. I'm sorry. Residential.
5 A. Yeah, metered. Because we have customers --
6 as a town we have the taxpayers. And there
7 is certainly shifting happening there. We're
8 shifting it away from taxpayers that don't
9 have water service. So, you know --
10 Q. But I guess just for clarity again, my
11 question was that there was no quantification
12 of how much money would be shifted --
13 A. No.
14 Q. -- from one pot to another.
15 A. No.
16 Q. If the town's proposal is approved and fire
17 protection allocation is reduced, and other
18 customers are required to pick up the slack,
19 for lack of a better word, or pick up the
20 amount that's being shifted from fire
21 protection, would you agree that residential
22 customers in other communities, such as
23 Hampton and Rye, will be required to pay a
24 portion of that shifted dollar figure?

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1 A. Yes. But also, of course, they have fire
2 hydrants, and they're in the same boat we
3 are. They have to either pay through the
4 taxes or they have to pay for the use of the
5 water. And fire hydrants, generally
6 speaking, don't use water. They just -- the
7 water is there. So, you know, that's why we
8 have joined with Hampton in this proceeding
9 and have hired Mr. Parcell. We have a
10 different understanding than some people in
11 this room about whether it's -- which cost
12 shifting is actually happening. We happen to
13 think it's going the other way, the wrong
14 way, that it's being shifted to towns,
15 because it's a way of keeping the true price
16 of water down.
17 Q. Thank you.
18 You recognize in your testimony that
19 public fire protection rates charged the Town
20 provide access to a certain capacity of water
21 should that be needed in the event of fire;
22 is that correct?
23 A. Yes.
24 Q. And are you familiar with the Insurance

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1 Services Office, also known as the ISO?
2 A. Yes, I am.
3 Q. And do you know what the ISO fire flow
4 requirements are for the town?
5 A. It's 3,000 gallons per minute for three
6 hours.
7 Q. And if the town's allocation of fire
8 protection charges is reduced, would the Town
9 be willing to accept less fire flow
10 protection from the Company?
11 A. I don't see any way that could possibly
12 happen, because we're not using 3,000 gallons
13 per minute for three hours. The beach fire
14 was 254,000 gallons, which is one tenth of
15 the tank capacity, which is 2.75 million
16 gallons. I don't know what they're going to
17 do with the rest of the water, ma'am.
18 There's not going to be a change. I just
19 don't see that. I don't make that
20 calculation. There will be no change, except
21 the customers who use the water will pay for
22 it.
23 Q. So in other words, there's no way for the
24 Company to reduce the fire flow protection it

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1 provides to the town --
2 A. No.
3 Q. -- and pays less than a 100 percent of the
4 cost of the service?
5 A. No. I mean, as an example of the problem
6 we've got as a town, in the technical session
7 we talked with the water company and said,
8 Well, the cost is so high, we'll take half
9 the hydrants out. We'll just get longer
10 hoses. And they said, Well, we'll charge you
11 twice as much. So, I mean, is that what you
12 do as a homeowner if you reduce the number of
13 toilets? No. You pay a water rate per
14 usage. It's different for towns. That's our
15 conundrum here. It's a very -- it's not a
16 true charge for cost of service.
17 Q. But --
18 A. So, you know, when you say it will be reduced
19 or it will be shifted, I don't see any way
20 that shifting can occur.
21 Q. But you didn't perform a cost of service
22 study to access that, did you?
23 A. I didn't. But I looked at others. And all
24 the cost of service studies show we are in

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1 the stratosphere, and there's no explanation
 2 as to why except Mr. Crostino's [sic] study,
 3 who I argued with and we argued with. And we
 4 agreed to disagree.
 5 Q. And by "others" you mean --
 6 A. Other towns. City in Florida; Birmingham,
 7 Alabama. You name it. Just Manchester, New
 8 Hampshire; Portsmouth, New Hampshire. In
 9 this state and other states. There's nothing
 10 like we're paying for fire hydrants, ma'am.
 11 Q. Those are municipal systems?
 12 A. No, they are private systems and --
 13 Q. What's the system in Manchester?
 14 A. The system in Manchester is a public system.
 15 But people outside the city of Manchester pay
 16 a rate, just like Greenland pays for
 17 Portsmouth water, and Newfields, I believe,
 18 pays for Portsmouth water. Parts of Rye do.
 19 They pay a fire hydrant charge 150 or 130 a
 20 year. They're paying what presumably the
 21 company considers covers their cost.
 22 Q. And what's the system in Nashua?
 23 A. Nashua is now -- since it's now -- now it's
 24 Nashua. Outside Nashua it's a similar

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1 situation, where they charge a fee, a fire
 2 hydrant charge. Within the city they don't.
 3 It's just the city charging the city.
 4 Q. But I guess I'm asking you what the company
 5 is -- or what the system is.
 6 A. Well, since the break-up, I do not -- I have
 7 only -- I've been getting the correspondence
 8 since the Pennichuck-Nashua thing for years.
 9 And I don't -- since the change in ownership,
 10 I haven't kept up. I don't know.
 11 Q. Thank you.
 12 In your testimony, you talk about the
 13 subsidization of the town's water customers
 14 by the town's non-water customers. And you
 15 refer to the importance of customers who are
 16 benefiting from the Company services, paying
 17 for those services. Do you recall that
 18 testimony?
 19 A. Yes, I do.
 20 Q. Would you agree that the Town opposes
 21 subsidies?
 22 A. Yes, I would.
 23 Q. Thank you.
 24 The Town passes along public fire

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1 protection cost to its taxpayers through
 2 their property taxes; is that correct?
 3 A. That's correct.
 4 Q. It's a pass-through?
 5 A. It's a pass-through, and it's just in the
 6 general fund. And it isn't allocated by the
 7 size of the house or anything like that,
 8 except you could say, well, the appraised
 9 value of the house, you know, does affect
 10 somehow what they pay for fire. And the town
 11 itself, of course, has sprinkler protection
 12 systems of its buildings.
 13 Q. Would you agree that, to the extent these
 14 taxpayers pay their tax bills, that these --
 15 they're entitled to deduct these payments in
 16 the calculation of their federal income
 17 taxes?
 18 A. Yes.
 19 Q. And that if the town's proposal is approved,
 20 residential customers in North Hampton will
 21 pay less in property tax and more in their
 22 water rates?
 23 A. Run that by me again? I'm sorry.
 24 Q. Sure. Do you agree that if the town's

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1 proposal is approved, residential customers
 2 in North Hampton will pay less in property
 3 tax and more in their water rates directly to
 4 the Company?
 5 A. Yes, they will.
 6 Q. And the payments of water bills are not
 7 tax-deductible; is that correct?
 8 A. That is correct.
 9 Q. Okay. Thank you.
 10 Is reducing the public fire protection
 11 cost a way for the Town to reduce its tax
 12 bills?
 13 A. Yes, it is.
 14 Q. You participated in the Company's last rate
 15 case, DW 08-098. Do you recall that?
 16 A. Yes, I did.
 17 Q. And this issue existed in that case as well;
 18 right?
 19 A. That's correct.
 20 Q. And do you recall discussions in that case
 21 about ways in which the Town could isolate
 22 the impact of the Company's public fire rates
 23 to only taxpayers who were customers of the
 24 Company?

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1 A. I don't recall that discussion.
2 Q. Do you recall any discussions about the Town
3 establishing a municipal water district so
4 that it could achieve this result?
5 A. Yes, we have talked about that. We actually
6 had a petition warrant article. It didn't
7 pass. The Company was very aggressive,
8 pointed to the fact that Nashua Pennichuck
9 was involved. And postcards were sent out
10 showing dollar bills going down the drain by
11 the Company. And polling was done by a
12 marketing organization, and it scared the
13 property taxes [sic]. They were -- it was
14 suggested that property taxes would go up by
15 having a municipal water company, which is
16 ridiculous, because a municipal water company
17 is bonded. It's separate from the taxpayers.
18 But they were scared. And we almost won.
19 And all it was, was a study. We weren't
20 asking to take over the company. We simply
21 asked to study the idea.
22 Q. Has the Town investigated any options for --
23 any other options for ameliorating the impact
24 of the Company's rates on non-company

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1 taxpayers?
2 A. No, we have not. And quite -- you know,
3 thinking about this off the top of my head, I
4 cannot imagine how we could do that. The DRA
5 is pretty -- you know, has rules about how
6 taxes are levied. And you can't -- you know,
7 I don't know. Perhaps there's a -- I don't
8 know. I'm just thinking off the top, is
9 there a way of doing a fire district that
10 would separate the people? I don't know. I
11 don't know. We've never investigated it.
12 Q. And just for clarity, that was the kind of
13 concept I was asking about when I mentioned
14 the municipal water district.
15 A. It's never occurred to me. And it's never
16 been discussed by the water commission, and I
17 don't believe it was ever discussed at
18 technical hearings.
19 Q. Do you recall a public statement that you
20 filed in this docket in November of 2012?
21 A. Possibly. I'm certain if you help me recall,
22 I'll be happy to confirm it.
23 Q. May I approach the Bench?
24 CHAIRMAN IGNATIUS: Of course.

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1 (Ms. Hollenberg hands document to witness.)
2 MR. TAYLOR: While she's showing
3 that, we'd just like to ask, before Ms.
4 Hollenberg's done, we just want to confer with
5 her for a moment before she concludes her cross
6 of Mr. Landman.
7 CHAIRMAN IGNATIUS: All right.
8 (Off-the-record discussion among
9 counsel.)
10 BY MS. HOLLENBERG:
11 Q. So I'd like to ask you about -- you filed a
12 public comment -- and I apologize 'cause my
13 copy has a little writing on the front. But
14 do you recognize this public comment which is
15 dated November 28, 2012?
16 (Witness reviews document.)
17 A. Let's see. Well, obviously it's got my name
18 on the top of it. I'm just reviewing. It's
19 been...
20 (Witness reviews document.)
21 A. Yes, I do.
22 MS. HOLLENBERG: And I don't
23 want to make this an exhibit because it's
24 already filed with the Commission. I just

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1 wanted to ask about a couple of the statements
2 that are made in the attachment.
3 CHAIRMAN IGNATIUS: All right.
4 BY MS. HOLLENBERG:
5 Q. If you could turn to the attachments,
6 starting on the first page of the article.
7 A. Yes.
8 Q. And it's really Page 9, if you see Page 9 at
9 the bottom --
10 A. Yes, I do.
11 Q. -- of the magazine. It's -- do you agree
12 that is an article entitled, "Municipalities:
13 Stewards of New Hampshire's Water
14 Infrastructure" --
15 A. Yes, I do.
16 Q. -- from the November/December 2012 issue of
17 New Hampshire Town and City Magazine?
18 A. Yes.
19 Q. And again, looking at the third paragraph,
20 starting with the third paragraph where it's
21 highlighted, I'm going to read some of the
22 language in that paragraph and ask if I've
23 read it correctly.
24 Do you see where the author refers there

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1 to "historic underpricing by municipalities
2 for water and wastewater services..."?
3 A. I do.
4 Q. And the author continues, "These rates should
5 reflect the full cost of providing these
6 services... however, this has not happened?
7 A. I do."
8 Q. And it also states, "The United States has
9 one of the lowest water and wastewater rates
10 in the world, and New Hampshire has rates
11 that are far lower than what one would pay
12 for cable TV or Internet services on a
13 monthly basis"?
14 A. Yes.
15 Q. "These services are routinely priced well
16 below the full cost of sustainable
17 operations"?
18 A. Yes.
19 Q. And if you'd turn to Page 11 of the magazine
20 article, I believe -- okay. And then there
21 is a paragraph in the bottom right corner
22 that says, "Full Cost of Service Rate
23 Setting." Do you see that?
24 A. Yes, I do.

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1 Q. And there it says -- the author states,
2 "Water rates should reflect the full cost of
3 service"?
4 A. Yes.
5 Q. And turning to the next page, the author
6 states at the top -- do you see the sentence
7 that says, "The public is best served when
8 the true cost of providing the infrastructure
9 services is reflected in the rates they pay"?
10 A. Yes.
11 Q. Okay. Thank you.
12 A. And it's something I've been maintaining for
13 many years, because it leads to conservation.
14 Q. Thank you.
15 MS. HOLLENBERG: If I could just
16 have a moment?
17 (Pause in proceedings)
18 MS. HOLLENBERG: I don't have
19 any other questions. Thank you.
20 CHAIRMAN IGNATIUS: Thank you.
21 Ms. Brown.
22 EXAMINATION
23 BY MS. BROWN:
24 Q. Good afternoon, Mr. Landman.

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1 A. Good afternoon.
2 Q. Do you have Exhibit 17, your testimony, in
3 front of you?
4 A. Yes, I do.
5 Q. I'd like to draw your attention to Page 3 --
6 A. Page 3?
7 Q. Three lines up, to where you made an edit
8 earlier.
9 A. Oh, wait. I'm sorry. Looking at the wrong
10 one here. What's it start with? They don't
11 have pages numbered.
12 Q. It is --
13 A. What's the question line?
14 Q. I'm drawing your attention to the sentence
15 you changed, and it started with, "It is
16 noteworthy that neither Manchester" --
17 A. Yes, okay.
18 Q. I'm trying make sure we are not talking over
19 each other as well.
20 A. Okay.
21 Q. Just now -- and correct me if I'm wrong --
22 you testified that, with respect to Nashua,
23 the city is charging the city. Do you recall
24 that?

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1 A. Yes. My understanding is that Nashua and
2 Manchester are not charging the city.
3 They're charging outside of the city to other
4 communities they're serving. Nashua
5 serves -- took over for Pennichuck, as I
6 understand it, and serves other communities.
7 They took over the whole Pennichuck system,
8 or most of it.
9 (Ms. Brown distributing documents.)
10 Q. Mr. Landman, I just want to show you a
11 document and have you read it. I've given a
12 copy to your counsel. It is a copy of a
13 tariff page from Pennichuck Water Works. And
14 if you could read it to yourself, or not read
15 it vocally.
16 (Witness reviews document.)
17 A. Yes. Okay.
18 Q. And would you agree that Pennichuck Water
19 Works charges a hydrant charge --
20 A. Yes.
21 Q. -- for municipal fire protection service?
22 A. It looks like they do within the city,
23 according to this, because they call it
24 "municipal fire protection service."

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1 "Municipal," I assume it means within the
2 city --
3 Q. Sorry for interrupting. Do you then have a
4 further alteration to this sentence on Page 3
5 in your testimony?
6 A. Well, yes. Apparently I'm in error about
7 that. It would exclude Nashua, because
8 apparently they do charge within the city for
9 that service. They don't just charge
10 external. They have a standard rate.
11 Q. Thank you. That was the only factual
12 clarification Staff wanted to --
13 A. Thank you.
14 CHAIRMAN IGNATIUS: Thank you.
15 Questions from the Commissioners? Commissioner
16 Harrington.
17 MR. HARRINGTON: Yes.
18 INTERROGATORIES BY CMSR. HARRINGTON:
19 Q. Good afternoon. I think your position seems
20 to be pretty clear. Let me make sure I got
21 it.
22 What you're saying is that somewhere
23 around half of the Town of North Hampton is
24 not served by Aquarion Water Company.

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1 A. That's correct.
2 Q. But Aquarion Water Company sends the bills
3 for the hydrants in the portion of the town
4 that they do serve to the Town itself, North
5 Hampton.
6 A. Yes, sir.
7 Q. And then North Hampton distributes that as
8 just another expense that goes on everybody's
9 property tax bill.
10 A. That's correct. About \$228,000 this past
11 fiscal year -- this year.
12 Q. And what you're saying is that it would be
13 fairer if the people that were served by
14 Aquarion and had hydrants were the ones who
15 paid for them and not the ones who do not.
16 A. Yes, because the insurance difference is
17 about 6 percent higher if you don't have
18 hydrants. But in our town, we either require
19 hydrants or fire ponds. And we also have
20 tanker trucks that deliver water so we can
21 fight fires anywhere in town.
22 Q. Okay. So, as a follow-up to what Ms.
23 Hollenberg said, isn't there any method that
24 the Town could come up with, since it's your

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1 tax dollars, to simply say that people that
2 are served by the water company will pay the
3 fees associated with that as part of a higher
4 tax rate than the people who aren't served by
5 that?
6 A. I don't know if it's allowed by New Hampshire
7 law, sir. It's not something -- I just don't
8 know. But it's an interesting suggestion,
9 and I'll certainly bring it back to my town
10 and my town manager. But I don't know if
11 it's legally allowed.
12 Q. But it's safe to say the Town hasn't pursued
13 that option.
14 A. Have not. Never in my history as
15 commissioner. Never.
16 Q. That's what I was trying to get at. Thank
17 you.
18 A. You're welcome.
19 CHAIRMAN IGNATIUS: Commissioner
20 Scott?
21 CMSR. SCOTT: No questions.
22 INTERROGATORIES BY CHAIRMAN IGNATIUS:
23 Q. Mr. Landman, in your testimony you also
24 described concerns about conservation and

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1 mixed messages being sent in this case. And
2 on the final page of your testimony you said,
3 "It may make sense to examine a multi-tier
4 rate structure that will encourage
5 conservation and send the correct price
6 signals on water usage."
7 Do you know of any structures that
8 you've seen or read about that follow the
9 thinking that you have in your testimony?
10 A. Oh, absolutely. I mean, it's standard
11 practice in municipalities, and my customers
12 in the utility business -- City of Watertown,
13 South Dakota; Lakeland, Florida; City of San
14 Francisco -- it's common practice. The
15 Company is reverting to that it's going to
16 meter radio reads. And if they get to
17 monthly reads, they cannot only do the
18 tiered -- you know, block usage of water, but
19 the bigger factor is, and the Commission's
20 discussed it today, is leakage and the loss
21 rates. And if you can meter the water and
22 make a measurement at 2:00 or 3:00 in the
23 morning, when hardly anybody's taking showers
24 or flushing toilets or filling swimming

DAY 2 - AFTERNOON SESSION ONLY - May 24, 2013
DW 12-085 AQUARION WATER CO. OF N.H., INC. HEARING REGARDING PERMANENT RATES

<p>[WITNESS: ROBERT J. LANDMAN] Page 141</p> <p>1 pools, hopefully, you will be able to tell 2 where the leaks are. And there are various 3 systems of leak prevention. Itron has a very 4 big system. And people who reduced leaks in 5 their towns by 50 percent in six months, the 6 water rate loss of 28 percent dropped to 7 14 percent. I mean, metering is essential to 8 get conservation. 9 I know that DES -- we worked with the 10 DES in technical sessions here at the water 11 commission -- at the water utilities to try 12 to get metering instead of quarterly reads. 13 Even Mr. Naylor and I joked about it one time 14 years ago -- and I'm sure, Mark, you 15 remember -- that you get a shock when you get 16 your bill in September and it's too late to 17 do anything about it and you've used a lot of 18 water to water your lawn. We had a library 19 that had a leak in the toilet, and we got an 20 enormous bill after three months of a water 21 leak. So it eliminates those kinds of 22 charges and waste. 23 And those of us who've lived here quite 24 a while -- I'm originally from San Francisco,</p>	<p>[WITNESS: ROBERT J. LANDMAN] Page 143</p> <p>1 plenty for domestic use. 2 So there ought to be, you know, whether 3 it's 56,000 gallons a year, whatever it is 4 monthly, we have to change the way we're 5 using -- we're charging for water. And the 6 true cost isn't fire. It's usage. That's, 7 you know... 8 Q. Thank you. 9 CHAIRMAN IGNATIUS: Mr. Ratigan, 10 any redirect? 11 MR. RATIGAN: No. 12 CHAIRMAN IGNATIUS: All right. 13 Then you're excused. Thank you very much, Mr. 14 Landman. We appreciate your testimony. 15 MS. BROWN: Staff would like to 16 call Mr. Naylor and Mr. Laflamme as our next 17 witnesses. I believe that's the order. 18 CHAIRMAN IGNATIUS: All right. 19 As a panel? 20 MS. BROWN: Yes. 21 CHAIRMAN IGNATIUS: I assume 22 that's agreeable to everyone? We're kind of in 23 no man's land here in how we're presenting this 24 case. So that works for me.</p>
<p>[WITNESS: ROBERT J. LANDMAN] Page 142</p> <p>1 but I've been here since '94. In '95 we had 2 a terrible drought. And you remember we had 3 a moratorium on new hookups. We had, you 4 know, to get conservation going. And we were 5 looking for new wells. And the Company has 6 tried to get new wells. We've got a Coakley 7 Superfund site in our town. So there are a 8 lot of areas with the aquifer, you can't get 9 to it, and we only have so much water. 10 We've talked about desalinization. I've 11 been on the Rockingham Planning Commission, 12 and we've discussed that. Seabrook has water 13 problems. Exeter has water problems. 14 So, conservation is what has to be done. 15 And the signal -- the wrong -- the best 16 signal is the cost of water. And if you want 17 to water your lawn in the summertime, you 18 should be paying for it and not the person 19 who gets -- the HUD standard is 5 gallons per 20 minute. And if you're using -- and the 21 average water sprinkler takes about 2 gallons 22 a minute; so if you've got 5 heads, that's 23 10. So, just sprinkling a lawn is 10 gallons 24 a minute, twice the HUD standard, which is</p>	<p>[WITNESS: ROBERT J. LANDMAN] Page 144</p> <p>1 MS. BROWN: Mr. Naylor has been 2 previously sworn. 3 CHAIRMAN IGNATIUS: And while 4 they're getting settled, is there anyone else 5 who will be testifying, or is this the final 6 set of witnesses? 7 MS. BROWN: I believe this is 8 the final. I see some nodding heads. 9 CHAIRMAN IGNATIUS: All right. 10 MS. BROWN: Oh, Mr. Laflamme 11 just reminded me he was already sworn in as 12 well yesterday when he testified from the 13 table. 14 CHAIRMAN IGNATIUS: Oh that's 15 right. We had a group swearing in. 16 All right. Then the two of 17 you will remain under oath. 18 MS. BROWN: But I never got a 19 chance to qualify Mr. Laflamme. If I could 20 just quickly do that? 21 CHAIRMAN IGNATIUS: Please. 22 (WHEREUPON, MARK A. NAYLOR and JAYSON 23 P. LAFLAMME were duly sworn and 24 cautioned by the Court Reporter.)</p>

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1 EXAMINATION
2 BY MS. BROWN:
3 Q. Mr. Laflamme, can you please state your name
4 and position with the Commission for the
5 record?
6 A. (Mr. Laflamme) My name is Jayson Laflamme.
7 I'm a utility analyst with the New Hampshire
8 Public Utilities Commission.
9 Q. And please describe your area of expertise.
10 A. (Mr. Laflamme) Accounting and finance.
11 Q. And is your testimony today within that area
12 of expertise?
13 A. (Mr. Laflamme) Yes, it is.
14 Q. And did you file testimony in this
15 proceeding?
16 A. (Mr. Laflamme) Yes, I did.
17 Q. And are you aware that it's been marked for
18 identification as Exhibit 10?
19 A. (Mr. Laflamme) Yes.
20 Q. And do you have any changes or corrections to
21 make to that testimony?
22 A. (Mr. Laflamme) No, I don't.
23 Q. Is that testimony also within your area of
24 expertise?

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1 A. (Mr. Laflamme) Yes, it is.
2 Q. And are you familiar with the terms of the
3 partial settlement agreement?
4 A. (Mr. Laflamme) Yes.
5 Q. And you don't have any -- or do you have any
6 changes or corrections to make to that
7 document?
8 A. (Mr. Laflamme) No, I don't.
9 Q. With respect to --
10 CHAIRMAN IGNATIUS: Before we go
11 any further, I just want to be sure we aren't
12 going back into the settlement agreement. I
13 assume that was addressed before with the
14 panel, and we're not engaging in discussions of
15 that. We're addressing the testimony filed by
16 Mr. Naylor and Mr. Laflamme?
17 MS. BROWN: Thank you. Good
18 catch. I was just trying to make sure that he
19 was aware of the terms. But you're right. We
20 already covered that yesterday.
21 CHAIRMAN IGNATIUS: Thank you.
22 BY MS. BROWN:
23 Q. Mr. Laflamme, the only question I have for
24 you relates to some potential confusion

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1 yesterday when we were talking about -- or
2 there was testimony about your testimony,
3 Exhibit 10, and Exhibit 18, and where the
4 numbers came from. This was questioning from
5 Mr. Harrington -- or Commissioner Harrington.
6 Do you recall that?
7 A. (Mr. Laflamme) Yes. Yeah. And I would just
8 like to just correlate the numbers between
9 Exhibit 18 and my testimony.
10 If you go to Exhibit 18, and I believe
11 it's Page 2 where it starts out on Line 1 and
12 says "Rate Base," and then if you go to my
13 testimony on Page 87 of 127 --
14 Q. Mr. Laflamme, I'll just ask you to continue.
15 I believe the Commissioners have --
16 A. (Mr. Laflamme) Yeah. There was some question
17 on the difference between my testimony and
18 Exhibit 18. And if you look at my testimony,
19 Page 87 of 127, it starts out with a rate
20 base of 22,507,605. And that correlates to
21 the rate base number indicated on Exhibit 18,
22 Page 2, which I believe is on Line 2.
23 And then going back to my testimony, the
24 fourth number down, Operating Income,

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1 1,135,449, that correlates to Item No. 4 on
2 Exhibit 18, indicated as 1,135,450.
3 So, really, the only difference between
4 my testimony and what is laid out in the
5 settlement agreement has to do with rate of
6 return, and more specifically, ROE.
7 Q. Are those -- is that the extent of your
8 clarifications?
9 A. (Mr. Laflamme) Yes.
10 Q. Thank you.
11 Mr. Naylor, it came up a few minutes ago
12 that we may need some clarification on the
13 partial settlement agreement and how any
14 revenue requirement is applied to fire
15 protection customers.
16 And my question to you is: Can you
17 please explain, if Staff is seeking an
18 across-the-board application of the revenue
19 requirement, how that continues to preserve
20 the rate design of Docket 08-098.
21 A. (Mr. Naylor) Sure. We found out during the
22 break that everybody had a misunderstanding
23 about one little piece of it or another.
24 But I did testify yesterday that, even

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1 though the settlement agreement is silent on
2 the issue, it was our expectation that the
3 increase would be applied across the board
4 evenly. The confusion came in because the
5 Town of North Hampton is asking for a
6 continuation of the rate design that was
7 unique to the public fire class in the last
8 case. And Mr. Ratigan had brought up the
9 order, showed me a copy of it -- 25,019 is
10 the order number from the last rate case.
11 And so the issue became: Is an
12 across-the-board increase in this particular
13 case, at whatever rate change was found by
14 the Commission to be reasonable, does that
15 preserve the rate design from the last case
16 with respect to the public fire class? And I
17 think we've come to an agreement that the
18 answer is "kind of." We like these "kind of"
19 exact things we do in utility regulation.
20 "Kind of" is something that actually has some
21 value.
22 And the reason for the confusion is
23 because, when we look at the revenues
24 produced by the public fire class in the test

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1 year -- and I'm reading from the Company's
2 filing; it's Page 3 of 171 -- and it shows
3 that the public fire class in the test year
4 contributed \$712,387. So that's the amount
5 of revenue the Company received from the
6 public fire class in the test year.
7 And I think the misunderstanding came,
8 at least on my part, from why is the Town
9 objecting to an across-the-board increase in
10 this particular case when an across-the-board
11 increase still preserves the rate design from
12 the last case? In other words, those
13 revenues -- that \$712,000 revenue is based on
14 the rates that were approved in the last
15 case. Those rates were based on a 70 percent
16 allocation of the applicable costs for
17 serving the fire protection class -- serving
18 the fire protection customers.
19 In addition to that, there were some
20 fees that were allocated, some increase, I
21 believe, in miscellaneous service fees.
22 That's discussed in the Commission's order.
23 Settling parties in the last case agreed to
24 dedicate those fees to the public fire class

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1 to help reduce those rates that were set for
2 that class.
3 So where we are now is, I think we still
4 have a disagreement with North Hampton, but
5 at least we understand what we're disagreeing
6 on. And that is: While an across-the-board
7 increase in this particular case, for the
8 most part, preserves that 70 percent
9 allocation, it doesn't preserve or maintain
10 or create a 70 percent allocation of any of
11 the new plant or new costs that have -- that
12 are going into rates in this case. So it's
13 just that incremental piece. North Hampton
14 and the three other public fire customers are
15 getting just a simple allocation and an equal
16 allocation of costs based on an
17 across-the-board increase. I think once
18 we -- if we did the numbers, we would
19 probably find that the difference is very
20 small. It's probably a pretty small number.
21 So I think the way we came out of that
22 discussion was Staff continues to support an
23 across-the-board increase. The four
24 municipal -- the four public fire entities

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1 are still substantially benefiting from the
2 rate design approved in the last case. And
3 when the Company is in again, they will file
4 a cost of service study with their next case,
5 and we will begin the debate anew. But
6 that's kind of where we stand at this point.
7 MS. BROWN: I have no further
8 questions.
9 CHAIRMAN IGNATIUS: All right.
10 Let's begin cross-examination with the Company.
11 Mr. Taylor, do you have any
12 questions?
13 EXAMINATION
14 BY MR. TAYLOR:
15 Q. Mr. Naylor, Mr. Laflamme, good afternoon.
16 A. (Mr. Naylor) Good afternoon.
17 Q. Mr. Naylor, referring to your testimony on
18 Page 7 -- and I'll specifically refer you to
19 Lines 9 and 10. In this case, the Staff has
20 utilized a return on equity that is lower
21 than recently approved equity returns to
22 reflect the reduction of risk with the WICA.
23 Have I read that accurately?
24 A. (Mr. Naylor) Could you give me that page

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1 reference again?
2 Q. Sure. I didn't mean to get ahead of you.
3 Page 7, just on Lines 9 to 10.
4 A. (Mr. Naylor) Yes, that's correct.
5 Q. Okay. This implies that the Staff believes
6 that the Company would be entitled to a
7 higher return on equity without the WICA. Is
8 that an accurate statement?
9 A. (Mr. Naylor) Higher than the 9.25 that's here
10 in the testimony?
11 Q. Yes.
12 A. (Mr. Naylor) Sure. Right. I mean, my
13 testimony -- and I made it -- hopefully made
14 it clear that I'm not sponsoring a particular
15 number. I was using this more for
16 illustrative purposes. But I was using --
17 taking off, I believe, from the 9.75 that the
18 Company was awarded in the last case.
19 So, without a WICA, I guess all other
20 things being equal, 9.75 would be the number.
21 Q. Okay. Well, you also note in your testimony,
22 in No. 5, same page, that the most recently
23 approved equity returns granted by the
24 Commission to water utilities in several

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1 dockets have been 9.75; correct?
2 A. (Mr. Naylor) That's correct.
3 Q. And in fact, Lakes Region Water Company
4 received a 9.75 return on equity as recently
5 as July 2012; is that correct?
6 A. (Mr. Naylor) I believe that's correct, yes.
7 Yes, that was --
8 Q. I can show you a copy of --
9 A. (Mr. Naylor) It was the full rate case, yes.
10 Q. You've not done any specific analysis to
11 determine what the amount of reduction on
12 return on equity should be as a result of
13 WICA; am I right?
14 A. (Mr. Naylor) You are right.
15 Q. You provided testimony in the most recent
16 Pennichuck Water Works and Pittsfield
17 Aqueduct cases, supporting the implementation
18 of a WICA program for those companies; is
19 that right?
20 A. (Mr. Naylor) Yes.
21 Q. And the Commission authorized a 9.75 percent
22 return on equity in those cases?
23 A. (Mr. Naylor) I believe so.
24 Q. And in fact, Pennichuck Water Works and

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1 Pittsfield Aqueduct do, in fact, have WICA
2 mechanisms following those cases; is that
3 correct?
4 A. (Mr. Naylor) They were both authorized to
5 have WICA pilot programs, yes.
6 Q. Mr. Naylor, I'm going to give you -- bear
7 with me for a moment. I'm going to give you
8 an excerpt of your testimony in that case.
9 MR. TAYLOR: I'll provide copies
10 to the Commission as well. This is a copy of
11 testimony that was provided in a prior docket.
12 I don't know that we need to mark it as an
13 exhibit. I would ask you to take notice of it.
14 And I'll just note that these are not the
15 complete copies but excerpts.
16 CHAIRMAN IGNATIUS: Make sure
17 they're distributed to counsel and others.
18 MR. TAYLOR: Oh, I'm going to.
19 (Atty. Taylor distributes document.)
20 BY MR. TAYLOR:
21 Q. Mr. Naylor, referring to Lines 18 and 19 on
22 Page 3 of your testimony in the Pennichuck
23 case --
24 CHAIRMAN IGNATIUS: Before we do

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1 that, for the record, let me just -- this is in
2 DW 10-091. And testimony dated March 31st,
3 2011 is what you've distributed --
4 MR. TAYLOR: Yes, this is a --
5 CHAIRMAN IGNATIUS: -- a short
6 excerpt from it?
7 MR. TAYLOR: Yes. This is an
8 excerpt of Mr. Naylor's testimony from DW
9 10-091.
10 BY MR. TAYLOR:
11 Q. Referring to Lines 18 to 19 on Page 3 of your
12 testimony, you stated that Staff would
13 support structuring a WICA for Pennichuck --
14 well, in PWW. But that is very similar to
15 the pilot program in place for Aquarion.
16 Have I read that correctly?
17 A. (Mr. Naylor) Yes.
18 Q. Nowhere in your testimony submitted in the
19 Pennichuck or Pittsfield cases did you
20 condition Staff support for the WICA program
21 on a reduction to return on equity; am I
22 correct?
23 A. (Mr. Naylor) You are correct.
24 Q. And Staff recommended the use of a 9.75

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1 return on equity in those cases; is that
2 correct?
3 A. (Mr. Naylor) As far as I know, yeah. Of
4 course, they just barely started their WICA
5 program. The company hasn't even filed for
6 surcharges. So it's just getting started.
7 Q. And when the Commission approved -- in the
8 orders approving permanent rates and the WICA
9 mechanisms in those programs, in those cases
10 the Commission did not condition approval of
11 the WICA program upon any reduction in
12 equity; is that correct?
13 A. (Mr. Naylor) Not to my recollection.
14 Q. Mr. Naylor, the Commission has approved
15 various capital adjustment mechanisms for gas
16 and electric utilities, such as the Cast
17 Iron/Bare Steel Replacement Program and the
18 Reliability Enhancement and Vegetation
19 Management Plan. Are you familiar with those
20 mechanisms?
21 A. (Mr. Naylor) To some extent, yes.
22 Q. Those mechanisms involve the replacement of
23 infrastructure and annual rate adjustments;
24 am I right?

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1 A. (Mr. Naylor) Correct.
2 Q. And isn't it true that the Commission has not
3 conditioned approval of those mechanisms on a
4 reduction to a utility's return on equity?
5 A. (Mr. Naylor) To my knowledge, they have not.
6 Q. Mr. Naylor, you've provided your opinion that
7 Aquarion's return on equity should be reduced
8 due to the existence of the WICA mechanism.
9 But you've not cited to any order from New
10 Hampshire or any other jurisdiction
11 supporting this premise; correct?
12 A. (Mr. Naylor) Well, sometimes we need to break
13 new ground I think.
14 Q. But you've not cited any studies, scholarly
15 articles, analyses, or anything of that
16 nature supporting this premise in your
17 testimony; is that correct?
18 A. (Mr. Naylor) No, just my opinion.
19 Q. And you've not provided any analysis
20 demonstrating that, compared to its peers,
21 WICA makes Aquarion a less risky investment;
22 is that correct?
23 A. (Mr. Naylor) In comparison to its peers? No.
24 Q. And just to revisit something that was

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1 addressed earlier, the actual -- and this was
2 addressed with Mr. Parcell's testimony, I
3 believe -- the actual percentage of WICA
4 revenues relative to the Company's overall
5 revenue is quite small; am I right?
6 A. (Mr. Naylor) Yes. The percentage of the
7 revenues -- I think the first year their
8 percentage was about 1.5, and then the second
9 year was about an additional 2 percent. So
10 it's relatively small. However, the
11 percentage of the Company's total capital
12 expenditures that are comprised of WICA
13 expenditures is substantial. It's more than
14 50 percent of their capital spending on an
15 annual basis. So, from that perspective,
16 it's pretty significant.
17 Q. Mr. Naylor, I know you heard yesterday Mr.
18 Welch and Mr. Bean, on behalf of the Town,
19 gave statements opining that Aquarion was --
20 I believe one of them said it was an
21 "outstanding company," and I believe -- I
22 don't want to specifically characterize their
23 testimony because I don't have it in front of
24 me. But I believe the general tenor of their

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1 opinion was that it was a well-run,
2 well-operated company?
3 A. (Mr. Naylor) I did hear that testimony.
4 Q. Okay. Would you agree -- or is it in your
5 view -- is it your view that Aquarion Water
6 Company of New Hampshire is a well-managed
7 and effectively run operation?
8 A. (Mr. Naylor) Yes.
9 Q. Is it fair to say that Lakes Region Water has
10 had a history of management and operation
11 problems?
12 A. (Mr. Naylor) Yes.
13 Q. And just to revisit what I said earlier,
14 Lakes Region, within the past year, was given
15 a return on equity of 9.75 percent; is that
16 correct?
17 A. (Mr. Naylor) Yes, with no analysis. Just
18 simply carrying forward the rate that a
19 number of companies have been receiving in
20 the last few years.
21 MR. TAYLOR: Can I have a moment
22 just to...
23 CHAIRMAN IGNATIUS: Please.
24 (Pause in proceedings)

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1 MR. TAYLOR: That will do it for
2 the Company on cross.
3 CHAIRMAN IGNATIUS: All right.
4 Thank you. Mr. Ratigan.
5 MR. RATIGAN: No questions.
6 CHAIRMAN IGNATIUS: Mr.
7 Gerreald.
8 MR. GEARREALD: Thank you.
9 EXAMINATION
10 BY MR. GEARREALD:
11 Q. Mr. Naylor, your attention was drawn to
12 Page 7 of your testimony. I'd like to go
13 there once more.
14 Staff -- on Page 7, Line 8, you
15 indicated Staff is utilizing a return -- a
16 cost of equity of 9.25 percent in calculating
17 Staff's revenue requirement recommendation,
18 assuming continuation of the WICA. And no
19 different figure is being put forth today by
20 you for that purpose, is it?
21 A. (Mr. Naylor) No. No. As I indicated, it's
22 simply -- I think I said it yesterday. It's
23 essentially a placeholder to illustrate --
24 certainly from Staff's perspective, we wanted

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1 to present a revenue requirement
2 recommendation. So Mr. Laflamme's testimony
3 sponsoring a revenue requirement needed a
4 number, so that's what we used.
5 But we also indicated on Lines 10
6 through 12 that we had an understanding that
7 your client had retained the services of Mr.
8 Parcell for sponsoring the cost of equity.
9 Q. Well, even more than being a placeholder, Mr.
10 Laflamme engaged in a whole analysis of what
11 the revenue requirement would be using the
12 9.25 percent; correct?
13 A. (Mr. Naylor) Yes, that's right.
14 Q. And the figure he came up to for a revenue
15 requirement corresponding to 9.25 percent was
16 -- and I guess I'm asking Mr. Laflamme this.
17 Mr. Laflamme, your figure utilizing 9.25
18 percent was \$857,810; correct?
19 A. (Mr. Laflamme) My calculated revenue
20 deficiency was 857,810.
21 Q. So if 9.25 percent were selected by the
22 Commission, that would be the number rather
23 than the Company's suggested 10.25 percent;
24 correct?

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1 A. (Mr. Laflamme) Yes.
2 Q. And their figure on 10.25 percent was
3 \$1,077,924; correct?
4 A. (Mr. Laflamme) I'm sorry. Could you repeat
5 that number?
6 Q. The Company's figure at 10.25 percent was
7 \$1,077,924; is that right?
8 A. (Mr. Laflamme) Yes, but that was as a result
9 of their response to Staff Data Request 3-11.
10 Q. Yes.
11 Mr. Naylor, turning back to you. You
12 put out a footnote on Page 7, where you
13 indicated that the most recently approved
14 equity return granted by the Commission for
15 water utilities was a certain number. Those
16 particular cases were not litigated cases; is
17 that correct?
18 A. (Mr. Naylor) That's right.
19 Q. And these particular cases -- of course, this
20 one is a litigated case; correct?
21 A. (Mr. Naylor) Yes.
22 Q. And none of those other dockets had the DCF
23 analysis presented; right?
24 A. (Mr. Naylor) That's right.

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1 Q. None of them had the ranges of DCFs that were
2 put forth as we have here of Mr. Parcell at
3 9.0 percent to 9.6, and Ms. Ahern's range as
4 revised today within that same range;
5 correct?
6 A. (Mr. Naylor) Correct.
7 Q. Now, you will continue to stand by, I take
8 it, the position that having the WICA
9 mechanism in place for as long as it's been
10 in place here, with three years of increases
11 added, should reduce the risk of the Company
12 and, therefore, the return on equity;
13 correct?
14 A. (Mr. Naylor) Yes, that's right.
15 Q. And I believe from my discussion with you,
16 your opinion in this regard is also
17 influenced by the fact that we are at very
18 low borrowing rates that have been in place
19 for a number of years now; correct? That's
20 an influence on your view as well; is it not?
21 A. (Mr. Naylor) Well, I think that's true. And
22 certainly the fact that, I think Mr. Parcell
23 testified to this, to some extent there's a
24 speed-up of the Company's cash flows and a

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1 little bit more certainty in their revenues
2 and their earnings. So I think that all
3 plays into it.
4 MR. GEARREALD: Thank you.
5 CHAIRMAN IGNATIUS: Ms.
6 Hollenberg.
7 MS. HOLLENBERG: Thank you.
8 EXAMINATION
9 BY MS. HOLLENBERG:
10 Q. Mr. Naylor, would you agree that the 9.75
11 return on equity that Lakes Region Water
12 Company was awarded recently was the result
13 of a comprehensive settlement agreement?
14 A. (Mr. Naylor) I asked myself that question
15 when Mr. Taylor asked me. And I paused for a
16 section because I just couldn't remember if
17 we had a settlement in that docket. So I'm
18 going to take from your question that, yes --
19 Q. Now you're making me wonder.
20 A. (Mr. Naylor) We do a lot of work here, so
21 it's -- can't always remember from case to
22 case. But --
23 Q. I'm being corrected. Then I guess it wasn't.
24 So I'll withdraw my question. Thank you.

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1 CHAIRMAN IGNATIUS: All I know
2 is we had five or more days of hearings. So it
3 didn't settle much.
4 [Laughter.]
5 MS. HOLLENBERG: I blocked it.
6 MR. CAMERINO: Well, this was a
7 settlement, except for...
8 CHAIRMAN IGNATIUS: Ms. Brown.
9 MS. BROWN: I have no redirect,
10 other than to state that Staff was an advocate
11 in that docket of Lakes Region, designated as a
12 Staff advocate. So I doubt we had a
13 settlement.
14 MR. NAYLOR: Good point.
15 CHAIRMAN IGNATIUS: Questions --
16 you're done, Ms. Hollenberg?
17 MS. HOLLENBERG: Yes. Thank
18 you. I apologize.
19 CHAIRMAN IGNATIUS: That's all
20 right.
21 Questions from the Bench?
22 Commissioner Harrington.
23 MR. HARRINGTON: Just a couple
24 questions, just so I understand.

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1 INTERROGATORIES BY CMSR. HARRINGTON:
2 Q. In your testimony on Page 7, Mr. Naylor, what
3 you're basically -- you're using this as an
4 indication. The 9.25 percent is not the one
5 you're recommending to be awarded in the
6 case, but simply that it should be something
7 less than the 9.75 that was previously there
8 because of the -- now that the WICA program's
9 been around for a while.
10 A. (Mr. Naylor) Exactly right.
11 Q. And as was somewhat determined, the 9.75
12 that's been used for water companies is sort
13 of a historical thing that's been carried
14 along here, and no one seems to be exactly
15 clear when the last analysis was done for
16 that.
17 A. (Mr. Naylor) Yeah. I think it was the
18 Pennichuck case, and I think Mr. Parcell
19 actually provided some testimony in that
20 case. And what was brought out this
21 afternoon for exhibits were snippets of Mr.
22 Parcell's testimony. So I think it was a
23 Pennichuck case. I'm not sure if it was a
24 '06 rate case or a '08 rate case, but...

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1 Q. And you heard both of the expert witnesses,
2 one for the Company and one for the Town.
3 And they -- when you looked at the DCF rate,
4 they were fairly close.
5 Do you have any opinion as to the
6 accuracy of those figures for ROE?
7 A. (Mr. Naylor) I cannot really give you an
8 opinion on it. I can't hold myself out as
9 having any expertise in that area. As much
10 as I tried to keep up with it and sort of
11 gain, you know, an understanding of how it
12 all fits together, I'm not comfortable with
13 providing an opinion.
14 Q. Let's move on to a slightly different area
15 then.
16 There's been, you know, testimony
17 presented that the Company has been
18 under-recovering since the last rate case; is
19 that correct?
20 A. (Mr. Naylor) Yes.
21 Q. And what's the major reason for that?
22 A. (Mr. Naylor) Well, I don't recall
23 specifically if there's things that the
24 Company has indicated to us through discovery

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1 or in other ways. My suspicion would be that
2 their circumstances are very similar to most
3 other companies, particularly those companies
4 that are in, you know, a mode of capital
5 spending, you know, on a very regular basis
6 and experiencing cost increases.
7 Q. But some of it would be associated with their
8 reduction. They didn't sell as much water as
9 they planned and the tax rate went up faster
10 than they planned?
11 A. (Mr. Naylor) Absolutely. Yeah, absolutely.
12 The only way a company is going to earn its
13 authorized rate of return is if all the
14 projections, if you will, from using the
15 test-year data to set rates and provide some
16 pro forma adjustments that are appropriate to
17 that test year, if all those assumptions stay
18 exactly the same, they sell the same amount
19 of water they sold in the test year, their
20 expense levels stay the same as they were in
21 the test year, and their capital spending is
22 no greater than the rate of depreciation on
23 their existing plan of service, that way
24 they'll earn exactly their rate of return

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1 going forward. In real life, that doesn't
2 happen.
3 Now, how do companies -- because there
4 are companies that are able to maintain their
5 rate of return, even though their costs
6 increase, even though they have capital
7 spending, and that's because they have growth
8 in their franchise areas. And so they're
9 adding new customers. And the amount of
10 incremental capital they need to invest to
11 serve those customers is very small. Of
12 course, that builds up over time until they
13 need large investments. But there has been
14 virtually no growth in this state for the
15 last four or five years. No housing starts,
16 no new developments, no -- very, very little
17 commercial development. So that's a factor,
18 too.
19 Q. And the authorized rate of return for the
20 Company, would that be the same under this
21 proposed settlement agreement as it was in
22 the past? How does that work?
23 A. (Mr. Naylor) Well, the authorized rate of
24 return is what you are being asked to approve

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1 through this hearing now.
2 What the settling parties here have
3 agreed to and recommend to you is a capital
4 structure in certain proportions, which is in
5 the settlement agreement that was provided,
6 and recommends to you a certain cost of debt.
7 So all you have to do is make your
8 determination as to what you think the
9 appropriate cost of equity is, plug that in,
10 assuming you also approve the settlement.
11 That will establish the authorized rate of
12 return for this company going forward. Then,
13 each year subsequently, the Company will
14 measure its achieved rate of return, its
15 actual rate of return based on all of its
16 operations, and measure that achieved return
17 against what you authorized. That will help
18 them make decisions as to the timing of their
19 next rate relief and so on and so forth.
20 Q. One last thing on the ROE -- well, maybe
21 you've probably addressed that sufficiently.
22 That's all the questions I have.
23 CHAIRMAN IGNATIUS: Commissioner
24 Scott.

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1 INTERROGATORIES BY CMSR. SCOTT:
2 Q. Okay. So it's getting later, so I think I'm
3 getting muddled now.
4 So does the Staff have a final position
5 on cost of equity?
6 A. (Mr. Naylor) We're leaving that to your
7 wisdom. I wish, now as I look back at my
8 testimony, I wish I was more clear in this
9 Page 7, in the Q&A that begins on Line 6,
10 because I said on Lines 10 to 12, "It's
11 Staff's understanding that the Town of
12 Hampton has engaged the services of a cost of
13 capital consultant to provide testimony in
14 this case."
15 So I wish I had made it more clear that
16 we expected the issue of return on equity to
17 be ultimately something that was going to be,
18 you know, thought out, whether we ultimately
19 reached a settlement or not.
20 But you have to recall that when the
21 Company made its original filing, it did not
22 include testimony from an expert witness.
23 The Company provided a recommendation for
24 return on equity, but it was based on its

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1 study of returns granted in other
 2 jurisdictions. That was kind of the starting
 3 point for it.
 4 At the time we did the testimony, we
 5 used the 9.25 as a placeholder, but we
 6 expected it to be -- expected it to get to
 7 this point and either settle between the
 8 Company and the Town or litigated.
 9 Q. And perhaps to paraphrase, so you don't have
 10 a definitive number as your position, but
 11 you -- the number, in your opinion, again,
 12 would be because of the presence of a WICA
 13 that's been ongoing and continuing into the
 14 future, that that ROE number should be
 15 something less than if there was no WICA in
 16 place.
 17 A. (Mr. Naylor) Correct. Yeah.
 18 Q. All right. I'll move on then.
 19 Yesterday, I believe it was, we had some
 20 discussions regarding peak demand and
 21 conservation and reduction efforts. I was
 22 just curious -- and for either of you -- if
 23 you had an opinion on was there much venue
 24 left for cost-effective measures to reduce

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1 peak demand? I'm just curious if there was
 2 any low-hanging fruit, in your opinion.
 3 A. (Mr. Naylor) I know that prior to the query
 4 on ownership going back into the '90s, prior
 5 ownership had embarked on a considerable
 6 effort to encourage conservation. And in
 7 fact, one of the cases back in the '90s --
 8 and I couldn't tell you which one; I would
 9 guess somewhere in like the '97 range -- they
 10 sought a recovery of costs related to a
 11 number of their conservation efforts. And
 12 this related to, you know, the shower head
 13 fixtures, other types of fixtures and some
 14 other things. I don't recall all the details
 15 of it. Plus sort of a marketing campaign.
 16 And they asked for a recovery of costs
 17 related to that.
 18 It's important -- and I'm remembering
 19 the testimony yesterday, and it struck me
 20 that the folks that are here today
 21 representing the Company may not know the
 22 history back in the '90s when I was -- you
 23 know, first 10 or so years I was here. Mr.
 24 Landman, I think, alluded to it a little bit

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1 earlier. This was a company desperately
 2 seeking new sources of supply for quite some
 3 time. There was a lot of problems. The
 4 seacoast was growing substantially back at
 5 that time. This Company was very focused on
 6 seeking out new sources of supply.
 7 And it struck me -- and I think it may
 8 have been your question to Mr. McMorran, I
 9 believe, about, you know, you got all this
 10 aging infrastructure. How come there wasn't
 11 a plan to deal with the distribution system a
 12 long time before this? And that's when it
 13 struck me that, at least for the period of
 14 time prior to the ownership of this utility
 15 by Aquarion, a lot of the focus, a lot of the
 16 money was going into new sources of supply.
 17 And there was a number of issues with that.
 18 And I think one of the proposed well sites
 19 was near a contaminated landfill or
 20 something. I forget all the details. But
 21 they had a lot of problems with supply.
 22 So I think the Company, in those days,
 23 was making a lot of effort to try to tamp
 24 down demand because it was such a difficulty

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1 with the supply. I don't get the sense from
 2 hearing the testimony of the Company's
 3 witnesses now that there's as much of a
 4 problem with the supply. There seems like
 5 there's plenty of supply. So I don't know if
 6 -- really, I don't know how much of a real
 7 problem that is. I really don't have a good
 8 feel for that, whether that peak -- you know,
 9 the peak day is really a problem or not.
 10 So...
 11 Q. So let me go back to my question.
 12 So I was just curious. For conservation
 13 efforts, regardless of supply, do you think
 14 there's low hanging fruit that perhaps the
 15 Company hasn't addressed?
 16 A. (Mr. Naylor) I'm not aware that there is any.
 17 I know that we've had limited discussions
 18 about looking at some rate design things. I
 19 mean, I think that's worth looking at again
 20 in more detail. You know, there's some
 21 problems that we were talking about inclining
 22 blocks, where, you know, higher users went
 23 into a higher block, where they pay a lot
 24 more per gallon or per 100 cubic feet or

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1 whatever for use. That can have some adverse
2 effects, too, because that can -- that may
3 change those behaviors quickly.
4 But, you know, if there's things we can
5 do in rate design, we should definitely
6 consider it. And I think the Company is
7 understanding, coming from this case and our
8 discussions that we've had, that there's an
9 expectation in the next case that the Company
10 should probably come in with some ideas for
11 us to consider.
12 Q. In your earlier comments, you anticipated --
13 you went back to the questioning I had this
14 morning regarding aging infrastructure. And
15 I laid out to the Company -- I believe I
16 asked them, effectively: Does the WICA fix
17 the problem of the aging infrastructure? And
18 I don't think I got a warm and fuzzy that it
19 did.
20 I was just curious if you had a thought
21 on how -- again, this is an industry-wide
22 problem I think. But where do we go from
23 here? Obviously, WICA is a help. Do you
24 agree with that?

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1 A. (Mr. Naylor) Well, I think so far, yes. My
2 testimony does address that, in terms of the
3 task was partly in this case to evaluate the
4 WICA after so many years it's been in as a
5 pilot. And of course, the recommendation is
6 to continue it as a pilot for another rate
7 case cycle. And I think, as I indicated in
8 testimony, there is some data that the
9 Company has accelerated the replacement. So,
10 I mean, from that perspective it's helpful.
11 But we've had some interesting testimony
12 yesterday and today, you know, what the
13 push-pull is. You know, pressure of rates
14 versus the pressure on the Company to improve
15 its distribution system, to replace the
16 81,000 feet or whatever it is of a pre-World
17 War II distribution main. I mean, it's
18 just -- and it's not just this company. It's
19 lots of systems that have -- that were
20 installed either in the late 1800s, early
21 1900s. And, you know, they worked pretty
22 well for a long time, and then things have
23 changed. The Safe Drinking Water Act and
24 other types of requirements, environmental

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1 regulation, is much stricter than it was
2 years ago. So that kind of put us where we
3 are.
4 But I think the WICA is worthy of
5 extending, as we indicated in the partial
6 settlement. And we'll look at it again when
7 they come in the next time.
8 Q. And I think we have a record request for a
9 five-year -- their five -- their existing
10 five-year plan.
11 Would you agree that, certainly under
12 those circumstances of this aging
13 infrastructure, that long-term planning would
14 be of great value?
15 A. (Mr. Naylor) Yup. Certainly. And
16 interesting, too, that the partial settlement
17 calls for the Company to make some changes to
18 the WICA for the next cycle here, essentially
19 continuing as a pilot. But the settlement
20 calls for an updated main replacement
21 prioritization analysis, an updated
22 infrastructure inventory. So, we're going to
23 get some new data that will help us in the
24 next WICA filing, which, I guess, will be

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1 made by November 1st. I forget exactly.
2 Somewhere in the late fall.
3 CMSR. SCOTT: Thank you. That's
4 all I have.
5 INTERROGATORIES BY CHAIRMAN IGNATIUS:
6 Q. Mr. LaFlamme, we haven't forgotten about you.
7 If you remember, Exhibit 18 was the
8 revenue requirement exhibit that took the
9 adjustments that had been agreed upon in the
10 post-settlement, as well as adjustments you
11 had proposed in your testimony, and then it
12 employed a 9.75 rate of return -- excuse
13 me -- ROE. Do you remember that Exhibit 18?
14 A. (Mr. LaFlamme) Yes.
15 Q. Have you calculated what you would get to for
16 a revenue requirement using different ROEs?
17 Or could you do that?
18 A. (Mr. Laflamme) I have not. I have not
19 previously, but...
20 Q. I'd like to ask you to do that -- and we'll
21 reserve a record request -- of taking that
22 same structure of Exhibit 18, but doing a
23 couple of different runs. We already have
24 9.75. I guess what I'd ask you -- I haven't

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1 thought about all the numbers. One would be
2 10.25; one would be the two DCF numbers that
3 we received, 9.3 and 9.43. And, I mean,
4 they're all so close. The 9.4 was Mr.
5 Parcell's number with his DCF midpoint and
6 his comparable earnings midpoint. So,
7 perhaps we don't need all of those. 9.3, 9.4
8 and 9.43, they're all fairly close.
9 But what would you recommend? What do
10 you think is the soundest way to see some
11 comparisons of the numbers we've been looking
12 at?
13 A. (Mr. Laflamme) I could do the 10.25 and the
14 9.4.
15 MR. CAMERINO: Could we also
16 clarify for the Chair? This might be helpful.
17 We don't have any problem, obviously, with the
18 running scenarios. But on the bottom of
19 Exhibit 18 -- I'm not sure what line it was --
20 there was a "how many dollars for 100 basis
21 points." And my understanding, and the witness
22 can confirm this, is that you can literally do
23 that pro rata. So if you wanted to add 400
24 basis points, you would add that. But if you

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1 only wanted to add 50, you would just take half
2 of that dollar amount. It's not like there's
3 some other factor that gets applied.
4 MS. BROWN: And that's in
5 Dixon's testimony, correct, oral testimony?
6 MR. CAMERINO: It's right on the
7 exhibit.
8 CHAIRMAN IGNATIUS: Yeah, you're
9 right. It's that bottom box on the second page
10 of that exhibit I'd forgotten about. So this
11 is sort of like expanding a recipe. It will
12 still work if you double it or if you cut it in
13 half. All right.
14 Then maybe we don't need to
15 reserve an additional record request for it.
16 I just do want in the record to have some
17 calculation of what the impacts are.
18 BY CHAIRMAN IGNATIUS:
19 Q. Actually, I do want it. Why don't you go
20 ahead and do it, because then to run, what,
21 the percentage increases as well would be
22 helpful.
23 A. (Mr. Laflamme) Okay.
24 Q. So why don't we take the 9.4 and 10.25 as two

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1 numbers that we can get some sort of a sense
2 of the impacts and percentage increases that
3 would result, given the debt equity structure
4 that is being proposed by -- in the
5 settlement agreement.
6 MS. BROWN: Madam Chair, do you
7 have a deadline by which you're suggesting this
8 begin?
9 CHAIRMAN IGNATIUS: Well, we'll
10 have to talk about that for all three record
11 requests. Why don't we do that at the end.
12 MS. BROWN: Okay.
13 BY CHAIRMAN IGNATIUS:
14 Q. On Exhibit 32, which was the chart that
15 Aquarion developed, looking at the capital
16 structure and then applying a 9.6 ROE to the
17 actual capital structure and to a
18 hypothetical capital structure that was a
19 little bit different, Mr. Naylor, have you
20 looked at that chart, and do you have a -- do
21 you remember what was being developed going
22 through those numbers?
23 A. (Mr. Naylor) Yes. Yeah, I had a couple of
24 concerns -- well, not concerns. Just a

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1 couple things didn't quite make sense to me.
2 Q. Why don't you elaborate on that.
3 A. (Mr. Naylor) Okay. In all three of the
4 blocks, the Company is using the dollar
5 amounts for their different capital. And
6 they stay the same. I don't have the other
7 numbers right in front of me. But I think
8 that's their actual capital structure as it
9 exists at the end of 2012.
10 But they change the component
11 percentages in the second block. And I think
12 it's kind of done on a pro forma basis. But
13 that's not the actual percentage. In other
14 words, for debt in the top block, it's 59.24
15 for the 13.9 million. It can't be 55 percent
16 for the same 13.9; right? So I think it was
17 done on a pro forma basis to illustrate, to
18 make the points that they wanted to make, in
19 that the effective change in the component
20 percentages and factoring in the amount of
21 tax, they have more or less equity in the
22 capital structure than the Company. The
23 revenue requirement has to change to
24 accommodate more or less tax because taxable

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1 return on equity is taxable. So that was
2 kind of what my question was.
3 I understood the premise of the exhibit
4 and what they were trying to illustrate. And
5 I think they successfully illustrated it.
6 But that piece of it didn't really make sense
7 to me.
8 Q. There was a question that Mr. Taylor asked at
9 the beginning of this, of your taking the
10 stand, noting that Aquarion's been described
11 as a "well-run and well-managed company." I
12 think you agreed with that, didn't you?
13 A. (Mr. Naylor) Yes, I did.
14 Q. And it is coming out of a prior case at a
15 9.75 ROE and then comparing that to a water
16 utility that's had a more troubled past, in
17 terms of management, and that that also
18 recently received a 9.75 ROE. Do you recall
19 that?
20 A. (Mr. Naylor) Yes, I do.
21 Q. I took the import of that question to be,
22 then, a well-run company should have a higher
23 ROE because it's better managed. And I'm not
24 sure if that was what the meaning of it was.

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1 But that's what I thought the point of where
2 we were going with it.
3 Is that your view? Should an ROE be a
4 reward for something that's well run?
5 A. (Mr. Naylor) Yeah, that's a good question.
6 And conversely, should a company be, quote,
7 unquote, punished for poor performance by
8 having its return reduced? I don't know.
9 I'm not sure. I think it's a valid point
10 that the Company is making.
11 And, you know, I wondered when we did
12 the testimony for this case if the approach
13 we took was the right way to go with trying
14 to make a point with respect to our feeling
15 about risk, a little bit of a risk reduction.
16 But we felt it was an important point to
17 make. And we certainly heard Mr. Parcell
18 echo that to some extent. But it kind of put
19 us in a dilemma because we were sponsoring
20 cost of capital testimony. So, you know,
21 what do we do?
22 But to the point of whether the Company
23 should be rewarded, the Company is of a size
24 that it's sponsoring cost of capital

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1 testimony. And I'm not sure we could see
2 companies like Lakes Region or some of the
3 other ones -- I mean, the cost could be
4 prohibitive. Rate case expense passed on to
5 customers, it's not realistic I don't think.
6 Q. All right. Thank you. All right.
7 CHAIRMAN IGNATIUS: Any
8 redirect, Ms. Brown?
9 MS. BROWN: Thanks for getting
10 back to me. Even though I spoke out of turn
11 earlier, I still have no redirect. Thank you.
12 CHAIRMAN IGNATIUS: And the
13 witnesses are excused. Thank you very much for
14 your testimony.
15 And I believe that's it for
16 witnesses? Yes?
17 MS. BROWN: Correct.
18 CHAIRMAN IGNATIUS: Then the
19 final issues that I think we have to take up,
20 but please add to my list if I'm wrong, are to
21 first to ask if there's any objection to
22 striking identification and making all exhibits
23 permanent exhibits, full exhibits in the file.
24 Any objection?

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1 MS. HOLLENBERG: Actually, I
2 would like to make an objection to the portion
3 of Ms. Ahern's testimony that relates to the
4 risk adjustments, which are found at the end of
5 the testimony. I think that those are not
6 necessarily rebuttal of Mr. Parcell's
7 testimony. Neither the Company on direct
8 through Mr. Dixon, nor Mr. Parcell discussed
9 risk adjustments. And so the risk
10 adjustment -- so Ms. Ahern -- my understanding
11 is that she goes through Mr. Parcell's
12 testimony, the first part of it, and makes
13 corrections to it, which arguably is
14 appropriate to do in rebuttal, and then goes
15 further and introduces these concepts of these
16 risk adjustments that have not yet been
17 provided on direct. So I would argue either
18 that it be excluded -- that portion of the
19 testimony be excluded or given no weight.
20 Thank you.
21 CHAIRMAN IGNATIUS: Mr.
22 Camerino.
23 MR. CAMERINO: I really don't
24 understand the basis for not admitting it into

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1 evidence. The Company put forward its basis
 2 for allowed ROE. That was in Mr. Dixon's
 3 testimony. And he indicated why the Company
 4 did not hire an expert witness, which had to do
 5 with the practice of the water company and
 6 their desire to save money. The Town of
 7 Hampton responded with an analysis of ROE. And
 8 Ms. Ahern's testimony was submitted to say
 9 that's not a correct analysis; you need to make
 10 these corrections, and included in the
 11 corrections are these adjustments if you want
 12 to determine what the proper ROE is. So it was
 13 her response and a list of things that were
 14 incorrect. And one of the things that Mr.
 15 Parcell didn't do, obviously because he doesn't
 16 believe in it, was to make those adjustments.
 17 So it was very much responsive.

18 CHAIRMAN IGNATIUS: I'm going to
 19 deny the request. I think we do see at other
 20 times certain adders put onto ROEs after the
 21 base DCF analysis has been done. So I don't
 22 find that inappropriate to have asked for those
 23 adders, even in the context of it being
 24 described as rebuttal testimony.

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1 I'm also troubled that it
 2 comes out now rather than at the time of the
 3 testimony being filed, when there could have
 4 been a motion to strike, or at the time of
 5 the testimony being cross-examined today. So
 6 I'm going to deny that request.

7 Is there any other objection
 8 to striking identification and making all of
 9 the documents full exhibits?
 10 (No verbal response)

11 CHAIRMAN IGNATIUS: Seeing none
 12 we'll do so.

13 We have a question of when the
 14 record requests are to be filed. There are
 15 three that I'm aware of. Let me make sure we
 16 are all in agreement on this.

17 Exhibit No. 20 was Record
 18 Request 1. It was requested by Commissioner
 19 Harrington on the volume of water involved in
 20 the 17 leaks that were discovered in the
 21 leaks survey.

22 Exhibit 25 -- that's not
 23 right. Wait a minute. Exhibit 24 is the
 24 Company's five-year plan developed in 2013.

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1 And Exhibit No. 33, I guess we
 2 didn't mark, is what I just asked for from
 3 the Staff, to develop some ROE comparisons
 4 using the different percentages that we
 5 talked about.

6 MS. BROWN: With respect to the
 7 record request, Exhibit 33, Staff can turn
 8 around, once it has the Excel spreadsheet or
 9 the formulas from the Company, it can turn it
 10 around in a day or so. So I don't expect we
 11 are going to be a hold-up in supplying the
 12 record request.

13 CHAIRMAN IGNATIUS: All right.
 14 And Mr. Camerino or Mr. Taylor.

15 MR. TAYLOR: I was going to say
 16 it shouldn't be a problem for us to provide
 17 Excel information about the leaks. Again, I
 18 think we can do that fairly quickly.

19 On the five-year plan, we'll
 20 need to confer with the Company to see how
 21 long that would take. Obviously, we'll turn
 22 that around as quickly as possible.

23 CHAIRMAN IGNATIUS: See, I would
 24 have thought that would have been the fastest

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1 to produce because it's a document that exists,
 2 and it's just a matter of reviewing the
 3 confidentiality issue and submitting it.

4 MR. TAYLOR: We can provide a
 5 response to that request next week.

6 CHAIRMAN IGNATIUS: All right.
 7 Is next Friday, a week from today, sufficient
 8 for all three record requests?
 9 MR. TAYLOR: Yes.

10 MS. BROWN: From Staff, yes.

11 CHAIRMAN IGNATIUS: Then at the
 12 close of business Friday, June 1st, May 31st?
 13 MR. CAMERINO: May 31st.

14 CHAIRMAN IGNATIUS: May 31st.
 15 All right.

16 Is there a request for written
 17 closings or a desire to have oral closing
 18 statements?
 19 MR. TAYLOR: We would request
 20 that we provide oral closing statements. I
 21 don't think it will take a long time. If the
 22 Commission -- I realize that the hour is very
 23 late. But oral closings will enable us to
 24 bring this hearing in this rate case, at least

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1 this portion of it, to a conclusion today.
2 With written -- pardon me.
3 With written closings, that
4 will put additional time on this case. We'll
5 have to stagger when they're due, because we
6 would need a response -- or we would expect
7 to be able to respond to what was provided in
8 some of the other closings. Traditionally,
9 we would have the opportunity to go last, I
10 would think.
11 And so I think, just for
12 purposes of getting the order out and
13 bringing this to a conclusion, I think we can
14 do it today if the Commission is willing to
15 entertain us for a while longer.
16 CHAIRMAN IGNATIUS: Other
17 parties' comments? Mr. Gerreald.
18 MR. GEARREALD: My thought on
19 that is we have three exhibits, anyway, that
20 are not even yet seen. We had changes that
21 came in today from an expert on return on
22 equity from the Company's end that we had not
23 seen.
24 I believe a week -- a

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1 simultaneous filing of closings, written
2 closings, would be helpful. A week from the
3 production of the extra exhibits would be the
4 most fair, given the hour especially.
5 CHAIRMAN IGNATIUS: Ms.
6 Hollenberg.
7 MS. HOLLENBERG: I am not
8 opposed to doing oral closings, but I am
9 opposed to doing them this afternoon. I've
10 been battling not feeling well, and I feel
11 extraordinarily sick at this point in time. So
12 I'm not able to stay much longer.
13 MS. BROWN: Staff is prepared to
14 go forward with its oral closing.
15 CHAIRMAN IGNATIUS: All right.
16 One moment.
17 (Discussion off the record among
18 Commissioners.)
19 CHAIRMAN IGNATIUS: All right.
20 I think because we are, as Mr. Gerreald points
21 out -- because there are three exhibits missing
22 that are of importance to us, I think we are
23 going to hold off on closings and wait until we
24 receive those. What we'd like to do is have

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1 written closing statements. They don't have to
2 be extensive. They don't have to be legal
3 briefs. And they certainly don't have to
4 recount every bit of testimony.
5 What I'm wondering is, do
6 people want to have the transcript first
7 before you do so or not? That would speed it
8 up if it's without a transcript. I would say
9 Mr. Gerreald's suggestion of one week after
10 the final exhibits are received -- so, the
11 following Friday -- would make sense, or two
12 weeks later if you'd like. If you need a
13 transcript, then we've got to extend that out
14 a bit to have time for the court reporter to
15 put it all together.
16 MS. BROWN: Staff can say we
17 that don't need the transcript.
18 MR. TAYLOR: We don't need the
19 transcript. And I think we'd like to do it
20 sooner than later.
21 MR. GEARREALD: I think that's
22 true as well. I agree.
23 CHAIRMAN IGNATIUS: All right.
24 Good. Then is one week after the submission of

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1 the record requests -- well, actually, they may
2 come in at staggered dates.
3 If the record requests are due
4 no later than May 31st and written statements
5 due no later than Friday, I think that's
6 June 7th, is that acceptable to everyone?
7 MS. BROWN: Yes, ma'am.
8 CHAIRMAN IGNATIUS: I won't ask
9 for a page limit because people seem to be
10 concerned that they're being unfairly limited
11 from what they need to say. But you don't need
12 to write 100 pages. We don't judge the value
13 of what you say according to how thick the
14 stack is. And, you know, we have heard all the
15 testimony. We've been attentive to your
16 arguments. And so it's really sort of a
17 summary of where you think we come out in your
18 recommendations or solutions.
19 Mr. Ratigan.
20 MR. RATIGAN: Could there be a
21 reward for --
22 [Laughter]
23 CHAIRMAN IGNATIUS: Sometimes it
24 might be that way.

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1 All right. Is there anything
2 else? If not, again, I want to thank you for
3 yesterday. It was very odd to begin at 2:30
4 in the afternoon and to go until a little
5 after 7:00. That's hard, I know. And all of
6 you had to go back and get prepared for the
7 next day, and that makes it an even more
8 difficult task. So we really do appreciate
9 it. We're running late heading into Memorial
10 Day weekend, and so thank you for all your
11 time and focus and trying to do what we could
12 to make it move expeditiously. I'm pleased
13 we reserved another day and we don't need to
14 take it. So, thank you for that.

15 And with that, we'll take all
16 of this under advisement and are adjourned.
17 (Whereupon the hearing was adjourned at
18 5:12 p.m.)
19
20
21
22
23
24

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1 C E R T I F I C A T E
2 I, Susan J. Robidas, a Licensed
3 Shorthand Court Reporter and Notary Public
4 of the State of New Hampshire, do hereby
5 certify that the foregoing is a true and
6 accurate transcript of my stenographic
7 notes of these proceedings taken at the
8 place and on the date hereinbefore set
9 forth, to the best of my skill and ability
10 under the conditions present at the time.

11 I further certify that I am neither
12 attorney or counsel for, nor related to or
13 employed by any of the parties to the
14 action; and further, that I am not a
15 relative or employee of any attorney or
16 counsel employed in this case, nor am I
17 financially interested in this action.
18
19

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

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