

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

May 12, 2016 - 10:07 a.m.  
Concord, New Hampshire

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RE: DW 15-199  
ABENAKI WATER COMPANY:  
Request for Change in Rates.  
(Hearing on the merits)

PRESENT: Chairman Martin P. Honigberg, Presiding  
Commissioner Robert R. Scott  
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

APPEARANCES: Reptg. Abenaki Water Company:  
Justin C. Richardson, Esq. (Upton..)

Reptg. Village Shore Estates Assn.:  
David L. Laflamme, President

Reptg. Residential Ratepayers:  
Donald M. Kreis, Esq., Consumer Adv.  
Office of Consumer Advocate

Reptg. PUC Staff:  
Rorie E. Patterson, Esq.  
Mark A. Naylor, Dir./Gas & Water Div.  
Robyn J. Descoteau, Gas & Water Div.

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

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**P R O C E E D I N G**

1  
2 CHAIRMAN HONIGBERG: Good morning,  
3 everyone. We're here in Docket DW 15-199,  
4 which is Abenaki Water Company's Petition for  
5 permanent rate adjustment. This is the hearing  
6 on the merits. We have a document with us  
7 characterized as a "Settlement". I see some  
8 people apparently ready to tell us about it.

9 Why don't we take appearances first.

10 MR. RICHARDSON: Thank you. Good  
11 morning, Mr. Chairman, members of the  
12 Commission. Justin Richardson, with the firm  
13 of Upton & Hatfield, here on behalf of Abenaki  
14 Water Company. With me here at counsel's table  
15 I have Mr. Stephen St. Cyr, who's the Company's  
16 rate consultant, and, as you noted, on the  
17 witness there's board -- Abenaki Board  
18 president, Donald Vaughan, and Deborah Carson,  
19 who's the Treasurer for Abenaki Water Company.

20 MR. LAFLAMME: Good morning. I'm  
21 David Laflamme representing Village Shore  
22 Estates Association, in Bow.

23 MR. KREIS: Good morning, Mr.  
24 Chairman, members of the Commission. I'm the

1 Consumer Advocate, Donald Kreis, here today  
2 representing the residential utility customers.

3 MS. PATTERSON: Good morning. Rorie  
4 Patterson, Mark Naylor, and Robyn Descoteau  
5 here on behalf of the Staff of the Commission.

6 CHAIRMAN HONIGBERG: All right. Is  
7 there anyone here from the Laconia Housing  
8 Authority?

9 *[No verbal response.]*

10 CHAIRMAN HONIGBERG: How about  
11 Briarcrest Estates?

12 *[No verbal response.]*

13 CHAIRMAN HONIGBERG: How about the  
14 residents of The Orchards at Plummer Hill?

15 *[No verbal response.]*

16 CHAIRMAN HONIGBERG: Can anybody tell  
17 me if any of those intervenors has a position  
18 on this or is going to be participating?

19 MR. RICHARDSON: I can state just for  
20 the record, it's my understanding, based on  
21 e-mails among the Parties that Laconia Housing  
22 stated their intent to agree to whatever the  
23 OCA signed off on. And I think -- I can't  
24 recall if any of the other Parties took the

1 same position, but I do recall that being the  
2 case.

3 MS. PATTERSON: If I might, I believe  
4 that it was Mr. Laflamme who -- Mr. Laflamme  
5 who stated that he concurred with the OCA's  
6 position. I don't recall hearing from  
7 Mr. Weaver since the beginning of the  
8 settlement negotiations.

9 CHAIRMAN HONIGBERG: Well, they've  
10 been included in all of the notices and they  
11 have been aware of everything that's been going  
12 on, is that correct?

13 MS. PATTERSON: Yes.

14 CHAIRMAN HONIGBERG: And they have  
15 received a copy of the document characterized  
16 as a "Settlement Agreement"?

17 MS. PATTERSON: Yes.

18 CHAIRMAN HONIGBERG: And they're not  
19 here, they're not here. All right.

20 MR. RICHARDSON: And my statement  
21 earlier was is actually I believe that both  
22 Village Shores, who is here today, and Laconia  
23 both indicated their agreement with OCA's  
24 position.

1                   CHAIRMAN HONIGBERG: Mr. Kreis, do  
2                   you have any other thoughts or knowledge? And,  
3                   understand, nobody is here under oath. We're  
4                   just trying to get a sense or to get an  
5                   understanding of the people who were granted  
6                   intervenor status who aren't here.

7                   MR. KREIS: I don't have any insight  
8                   to add to what you have already heard, Mr.  
9                   Chairman.

10                  CHAIRMAN HONIGBERG: Thank you, Mr.  
11                  Kreis.

12                  All right. I see we have some  
13                  documents that are up here in front of us. And  
14                  are there any preliminary matters we need to  
15                  deal with before somebody tells me how you  
16                  intend to proceed today?

17                  Ms. Patterson.

18                  MS. PATTERSON: My only comment would  
19                  be that Mr. Naylor did file testimony but is  
20                  not participating on the panel. So, I don't  
21                  know how you would like to admit his testimony,  
22                  if he could do that from the table, counsel's  
23                  table, or if the Parties would stipulate to the  
24                  admission?

1                   CHAIRMAN HONIGBERG: The latter, the  
2                   latter was what I was going to ask. If  
3                   everyone would stipulate that Mr. Naylor's  
4                   testimony can be made a full exhibit, then I  
5                   don't think we need to do anything else.

6                   Mr. Kreis.

7                   MR. KREIS: Indeed, I have much the  
8                   same request to make with respect to my two  
9                   witnesses, whom I opted not to fly in from  
10                  out-of-state for the purpose of simply getting  
11                  their prefiled testimony into the record.  
12                  Their views have been amply incorporated into  
13                  the Settlement Agreement. And, so, I'm hoping  
14                  that everybody will simply agree to admit their  
15                  prefiled testimony as exhibits by stipulation.

16                  CHAIRMAN HONIGBERG: Mr. Richardson.

17                  MR. RICHARDSON: The list that you  
18                  have in front of you with exhibits, it was  
19                  originally numbered 1 through 20. There's been  
20                  a renumbering this morning. But those are all  
21                  stipulated exhibits, as far as we're concerned.

22                  CHAIRMAN HONIGBERG: And, Mr.  
23                  Laflamme, I assume that's okay with you?

24                  MR. LAFLAMME: Yes.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 CHAIRMAN HONIGBERG: All right. So,  
2 then, do the Parties stipulate then that the  
3 exhibit list we have in front of us, which  
4 goes -- which starts with 6 and goes to 25,  
5 that everything on here is going to be a full  
6 exhibit? Is there agreement on that? And we  
7 can just dispense with the "marking for  
8 identification" stuff, if everybody is going to  
9 stipulate to the exhibits.

10 MR. RICHARDSON: Correct.

11 MS. PATTERSON: Agreed.

12 MR. KREIS: Agreed.

13 MR. LAFLAMME: Agreed.

14 (The documents, as noted on the  
15 prepared exhibit list, were  
16 herewith marked as **Exhibit 6**  
17 through **Exhibit 25**,  
18 respectively, and, by agreement,  
19 entered as full exhibits.)

20 CHAIRMAN HONIGBERG: All right. What  
21 else do we need to do before we proceed?

22 *[No verbal response.]*

23 CHAIRMAN HONIGBERG: All right.

24 We've got a panel of witnesses up there. I

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 guess we'll have them sworn in and then have  
2 the questioning start.

3 (Whereupon **Donald J.E. Vaughan**  
4 **Deborah O. Carson** and  
5 **Robyn J. Descoteau** were duly  
6 sworn by the Court Reporter.)

7 CHAIRMAN HONIGBERG: Mr. Richardson.

8 MR. RICHARDSON: Thank you. I'll  
9 begin for the Company's two witnesses, and then  
10 I believe Staff will follow, and we'll go in  
11 the order that's presented there.

12 **DONALD J. E. VAUGHAN, SWORN**

13 **DEBORAH O. CARSON, SWORN**

14 **DIRECT EXAMINATION**

15 BY MR. RICHARDSON:

16 Q. So, good morning. Mr. Vaughan and Ms. Carson,  
17 could you please state your names and positions  
18 for the record.

19 A. (Vaughan) Donald Vaughan, President of Abenaki  
20 Water Company.

21 A. (Carson) Deborah Carson, Treasurer of Abenaki  
22 Water Company.

23 Q. And were you both involved in the preparation  
24 of Abenaki Water Company's request for a

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 permanent rate increase?

2 A. (Carson) Yes.

3 A. (Vaughan) Yes.

4 Q. And I believe you have in front of you exhibits  
5 that have been marked now numbered "6" through  
6 "11". And I'd like to ask you for each to  
7 identify each one of those and tell us what  
8 they are. So, let's start with number 6, which  
9 is at Tab 1. What is that?

10 A. (Carson) Exhibit Number 6 is the permanent rate  
11 filing.

12 Q. Okay. And, then, let's walk through number 7,  
13 at Tab 2.

14 A. (Carson) Exhibit Number 7 is the Prefiled  
15 Testimony of Donald Vaughan.

16 Q. Okay. Tab 3, which is Exhibit 8?

17 A. (Carson) Exhibit 8 are the attachments to the  
18 Prefiled Testimony of Donald Vaughan.

19 Q. Okay. Exhibit 9, at Tab 4?

20 A. (Carson) Exhibit 9 is the Prefiled Testimony of  
21 Deborah Carson.

22 Q. And what is at Tab 5, which is Exhibit  
23 Number 10?

24 A. (Carson) It's the attachments to the Prefiled

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Testimony of Deborah Carson.

2 Q. Okay. And, then, Mr. Vaughan, I think this  
3 might be an appropriate question for you.  
4 Exhibit 11, at Tab 6, what is that?

5 A. (Vaughan) That is the Prefiled Testimony of  
6 Alex Crawshaw.

7 Q. Now, Mr. Crawshaw is not here today. Have you  
8 worked with him on preparation of this?

9 A. (Vaughan) Yes.

10 Q. And are you familiar with it?

11 A. (Vaughan) Yes.

12 Q. Okay. Thank you. And, just in case I forget  
13 to later, would you be -- when I ask you to  
14 adopt the testimony and schedules as true and  
15 accurate to your knowledge, you would agree  
16 with what's in that particular document, is  
17 that right?

18 A. (Vaughan) Yes.

19 Q. Okay. Thank you. Let's then turn to the next  
20 document, which is, I believe, at Tab 7,  
21 Exhibit 12. What is that?

22 A. (Carson) That is the permanent rate filing.

23 Q. Okay. And that's a -- is that a customer  
24 letter or what is that?

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 A. (Carson) That's a letter to the customers.

2 Q. Okay. And, then, I guess there are other  
3 documents and schedules attached, too, and  
4 that's part of the permanent rate filing is  
5 what you're saying, is that correct?

6 A. (Carson) Correct.

7 Q. Okay. My apologies. Now, what is at  
8 Exhibit 13, at Tab 8?

9 A. (Carson) That's a replacement for Schedule 3B.

10 Q. Okay. And that's a replacement to what was in  
11 the initial filing?

12 A. (Carson) Correct.

13 Q. Okay. Thank you. And, now, let me turn your  
14 attention to Exhibit 14, at Tab 9.

15 A. (Carson) Uh-huh. That's the Affidavit of  
16 Publication of the Order of Notice.

17 Q. Okay. And, now, I could ask both of you, are  
18 those documents and those schedules true and  
19 accurate to the best of your knowledge and  
20 belief?

21 A. (Vaughan) Yes.

22 A. (Carson) Yes.

23 Q. Thank you. Ms. Carson, could you summarize the  
24 Company's permanent rate request -- or, a

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 request for permanent rate increase please.

2 A. (Carson) The permanent increase request for  
3 annual water revenue for both the Belmont and  
4 Bow systems was for a total of \$45,393, or  
5 23.41 percent. The request for a permanent  
6 increase in annual sewer revenue in Belmont was  
7 for a total of \$39,246, or 50.11 percent.

8 Q. Now, I'd like to turn your attention to what's  
9 now "Exhibit 16", at Tab 10 -- or, actually, it  
10 states, because it's two-sided, right at the  
11 end of last page of Tab 9. And that's the  
12 Settlement Agreement, right?

13 A. (Carson) Is that Exhibit 15?

14 Q. I thought it was 16.

15 CHAIRMAN HONIGBERG: It's "15" on the  
16 list that you handed out.

17 MR. RICHARDSON: Okay. I'm sorry.  
18 Correct. I'm sorry.

19 BY MR. RICHARDSON:

20 Q. Yes, Exhibit 15.

21 A. (Carson) Okay. That is the Settlement  
22 Agreement.

23 Q. Okay. And you're familiar with that, correct?

24 A. (Carson) Yes.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. So, how does the revenue requirement compare in  
2 the Settlement Agreement to the Company's  
3 permanent rate request?

4 A. (Carson) The overall request in the initial  
5 permanent filing was for \$84,639. The  
6 Settlement Agreement is for a revenue increase  
7 of \$61,720. There are three classes of  
8 customers: Belmont Water, Bow Water, and  
9 Belmont Sewer.

10 For Belmont Water, the Company will charge  
11 rates sufficient to collect revenues of  
12 \$131,424, which is an increase of \$3,758, or  
13 2.94 percent. This amount includes a decrease  
14 in revenue requirement of \$2,904, plus a step  
15 adjustment of \$6,662.

16 For Bow Water, the Company will charge  
17 rates sufficient to collect revenues of  
18 \$91,977. This is an increase of \$25,770, or  
19 38.92 percent. This includes an increase in  
20 revenue requirement of \$21,654, plus a step  
21 adjustment of \$4,116.

22 For Belmont Sewer, the Company would  
23 charge rates sufficient to collect revenues of  
24 \$110,505, which is an increase of \$32,192, or

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 41.11 percent.

2 Q. So, I want to ask you a couple questions about  
3 the key differences between the Company's  
4 permanent rate request and what the Settlement  
5 Agreement provides. Maybe we could start with  
6 the rate of return on equity used to calculate  
7 the Settlement rates. And what are the  
8 differences?

9 A. (Carson) The Company requested a return on  
10 equity of 10.75 percent, and the Settlement  
11 amount was at 9.4 percent.

12 Q. And there's a reference in the Settlement  
13 Agreement to "net amortization costs". What is  
14 that? And what is the difference between the  
15 two?

16 A. (Carson) The Company requested a 12-year  
17 amortization period, and the Settlement was for  
18 a 21-year amortization period. Which is based  
19 on the balance of the net plant in service as  
20 of the end of 2014 divided by the depreciation  
21 expense.

22 Q. Okay.

23 A. (Carson) That's how we came up with 21 years.

24 Q. And there's a provision in the Settlement

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Agreement about the use of a year-end rate  
2 base. Was that something that the Company  
3 proposed?

4 A. (Carson) The Company proposed to use year-end  
5 rate base. The Staff requested a five-quarter  
6 average. So, we settled on using year-end rate  
7 base, with a stay-out provision, that the  
8 Company can apply for its next rate increase no  
9 sooner than one reflecting a 2018 historical  
10 test year for these three systems, with the  
11 exception of a major unforeseen event.

12 Q. And what is the issue with respect to the City  
13 of Laconia's fees?

14 A. (Carson) The City of Laconia's fees for sewer  
15 treatment makes up the vast majority of the  
16 operating costs for Abenaki Sewer. And the  
17 Settlement was -- it was agreed that, if the  
18 City of Laconia changes the rates, that the  
19 Company will be allowed a one-time adjustment  
20 through a filing, as long as it's filed no  
21 later than December 31st, 2017.

22 Q. And, then, what does the provision of the  
23 Settlement Agreement -- or, what was the  
24 provision concerning rate design?

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 A. (Carson) The rate design, it's an attachment,  
2 I'm not sure -- we settled on, you know,  
3 specific fixed and consumption charges.

4 Q. And is it your understanding those are based on  
5 the recommendations of the Office of the  
6 Consumer Advocate's witness?

7 A. (Carson) Yes.

8 Q. Okay. A couple of final questions. The law  
9 provides that "rates shall be sufficient to  
10 yield not less than a reasonable return on the  
11 cost of property of the utility used and useful  
12 and in the public service less accrued  
13 depreciation". Do you understand that concept?

14 A. (Carson) Yes.

15 Q. Are Abenaki Water Company's rates currently  
16 adequate to meet that standard?

17 A. (Carson) No.

18 Q. And why is that?

19 A. (Carson) The Company earned an actual rate of  
20 return during the test year of approximately  
21 5.65 percent, which is well below what was  
22 allowed in the last rate decision.

23 Q. And, with respect to the rates provided for in  
24 the Settlement Agreement, do you believe those

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 are sufficient to provide a reasonable return?

2 A. (Carson) Based on the 2014 test year expenses  
3 and the *proforma* expenses in the filing, yes.

4 Q. Okay. Thank you. Is there anything else to  
5 add to your testimony?

6 A. (Carson) Not at this time.

7 MR. RICHARDSON: Okay. Thank you.

8 CHAIRMAN HONIGBERG: Ms. Patterson,  
9 before you get started, I'm going to go off the  
10 record for just a second.

11 *[Brief off-the-record discussion*  
12 *ensued.]*

13 CHAIRMAN HONIGBERG: All right. So,  
14 we're going to go back on the record. And, Ms.  
15 Patterson, before you begin, I just want to get  
16 one housekeeping item dealt with in the packet  
17 of exhibits that were handed up to us.

18 What is supposed to be the first page  
19 behind Tab 10 is actually on the back of the  
20 page that is behind Tab 9. So, when this is  
21 final, when this hearing is over, if we  
22 could -- if someone could be responsible for  
23 copying that back page of the sheet that's in  
24 Tab 9 and putting it at the beginning of

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Tab 10, that will make these packages work  
2 better.

3 So, Ms. Patterson, I'm going to task  
4 you with the ultimate sort of responsibility to  
5 make sure that that's happened. But, however  
6 you get that done, it will be great. Is that  
7 all right?

8 MS. PATTERSON: Uh-huh. Yes.

9 CHAIRMAN HONIGBERG: Thank you. All  
10 right. Ms. Patterson, you may proceed.

11 MS. PATTERSON: Thank you. I just  
12 have one question for Ms. Carson.

13 **CROSS-EXAMINATION**

14 BY MS. PATTERSON:

15 Q. Could you please tell the Commission what the  
16 impact would be for each of the three systems  
17 on an average residential user of -- average  
18 residential customer please of the rate  
19 increases?

20 A. (Carson) Yes. We agreed that an average user  
21 would use about 3,000 gallons per month. So,  
22 for Belmont Water, the average user bill would  
23 go from \$53.74 to \$56.11, which is an increase  
24 of \$2.37, or 4.41 percent.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1           For Bow Water, the monthly bill for an  
2           average user at 3,000 gallons per month would  
3           go from \$50.91 to \$70.04, which is an increase  
4           of \$19.13, or 37.57 percent.

5           For Belmont Sewer, an average user monthly  
6           bill would be \$34.55. And, under the  
7           Settlement rates, it would be \$49.91, or an  
8           increase of \$15.36, which is 44.43 percent.

9   Q.   And, to be clear, the bill impacts, are they  
10       based on the rate increases not including the  
11       step adjustments or do they include the step  
12       adjustments?

13   A.   (Carson) Do you mean the temporary rates or do  
14       you mean the step adjustments effective with  
15       the order?

16   Q.   No. I guess I'm wondering if the bill impacts  
17       you just talked about, was your analysis based  
18       on the total amount of increase, which would  
19       have been the permanent rate increase plus the  
20       step adjustment, or are they only based on the  
21       permanent rate increase without the step  
22       adjustment?

23   A.   (Carson) They're based on the permanent rate  
24       increase plus the step adjustment.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 MS. PATTERSON: Thank you. Thank  
2 you.

3 **ROBYN J. DESCOTEAU, SWORN**

4 **DIRECT EXAMINATION**

5 BY MS. PATTERSON:

6 Q. Ms. Descoteau, could you please state your full  
7 name.

8 A. (Descoteau) My name is Robyn J. Descoteau.

9 Q. And by whom are you employed and what position?

10 A. (Descoteau) I am employed by the New Hampshire  
11 Public Utilities Commission, and I am a Utility  
12 Analyst in the Gas and Water Division.

13 Q. What are your responsibilities in that  
14 position?

15 A. (Descoteau) I examine, evaluate, and analyze  
16 filings and make recommendations to the  
17 Commission, based on applicable legal,  
18 financial, and accounting standards.

19 Q. Thank you. And, in that role, did you  
20 participate in the investigation of the  
21 Company's permanent rate case filing?

22 A. (Descoteau) Yes, I did.

23 Q. And did you file testimony in this case?

24 A. (Descoteau) Yes, I did.

{DW 15-199} {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. And that testimony, which has been marked as  
2 "Exhibits 18" and "19", are there any  
3 corrections that you wish to make to the  
4 testimony?

5 A. (Descoteau) Yes. There are some minor changes  
6 that should be made to it.

7 Q. If you could just start by identifying the  
8 first page of the change, when it looks like  
9 the rustling stops.

10 A. (Descoteau) Yes. On Page 40, after all of the  
11 schedules, the minor adjustments all deal with  
12 changes to words, not account numbers. On Page  
13 40, "water sales" should be "sewer sales", and  
14 "total water revenues" should be "total sewer  
15 revenues", instead of "total" --

16 On Page 43, "total *proforma* adjustments to  
17 water revenue" should read "total *proforma*  
18 adjustments to sewer revenue".

19 On Page 48, the fourth row of the title  
20 should read "Weighted Average Cost of Capital".

21 CHAIRMAN HONIGBERG: I'm sorry, where  
22 are you directing us on Page 48?

23 WITNESS DESCOTEAU: On the title  
24 page, way up at the top, the fourth row of the

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 title.

2 CHAIRMAN HONIGBERG: Where it  
3 currently says "Bow Water Division" for the  
4 second time?

5 WITNESS DESCOTEAU: Right.

6 CHAIRMAN HONIGBERG: And what should  
7 it say?

8 WITNESS DESCOTEAU: "Weighted Average  
9 Cost of Capital".

10 **CONTINUED BY THE WITNESS:**

11 A. (Descoteau) On Page 55, Line 21, "To record  
12 Town of Belmont" should read "To record Town of  
13 Bow".

14 On Page 56, "Municipal Taxes - Town of  
15 Belmont" should read "Municipal Taxes - Town of  
16 Bow".

17 Page 57, the third row of the title should  
18 read "Bow Water Division".

19 On Page 60, "Municipal Taxes - Town of  
20 Belmont" should read "Municipal Taxes - Town of  
21 Bow".

22 And, on Page 61, the third row should read  
23 "Town of Water Division" -- excuse me -- the  
24 third row should read "Bow Water Division".

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 BY MS. PATTERSON:

2 Q. The third row of the title, is that correct?

3 A. (Descoteau) Correct.

4 Q. Does that complete your corrections?

5 A. (Descoteau) Correct. That does.

6 Q. Thank you. And, in your role in this case, did  
7 you participate in the settlement negotiations  
8 that produced the Settlement before the  
9 Commission today?

10 A. (Descoteau) Yes, I did.

11 Q. And, in your participation, did you prepare  
12 revised revenue requirement schedules to  
13 reflect the changes that are memorialized in  
14 the Settlement Agreement?

15 A. (Descoteau) Yes, I did.

16 Q. And those have been marked as "Exhibit 20"?

17 A. (Descoteau) Yes, they have.

18 Q. And do those revised revenue requirements  
19 incorporate the corrections that you just  
20 indicated to your originally filed testimony?

21 A. (Descoteau) Yes, they do.

22 Q. Thank you. On behalf of Staff, do you support  
23 the Settlement Agreement?

24 A. (Descoteau) Yes, I do.

{DW 15-199} {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. And do you agree that the rates that will be  
2 produced by the terms of the Settlement  
3 Agreement are just and reasonable?

4 A. (Descoteau) Yes, they are.

5 Q. Do you have anything further to add based on  
6 what the Company has testified today?

7 A. (Descoteau) No, I do not.

8 MS. PATTERSON: Thank you. No other  
9 questions.

10 CHAIRMAN HONIGBERG: Mr. Kreis.

11 MR. KREIS: Thank you, Mr. Chairman.  
12 I think I just have a few questions. And I  
13 believe my questions are for Ms. Carson, but I  
14 don't mind if the other witnesses address them.

15 **CROSS-EXAMINATION**

16 BY MR. KREIS:

17 Q. Ms. Carson, you testified that the Company  
18 requested a "return on equity of 10.75  
19 percent", yes?

20 A. (Carson) Yes.

21 Q. And you also said that the Settlement amount, I  
22 believe that's what I heard you say, was  
23 "9.4 percent"?

24 A. (Carson) Correct.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. Wouldn't it be more accurate to say that the  
2 Parties did not, in fact, reach agreement on  
3 what a just and reasonable return on equity  
4 would be in this case? Just looking at the  
5 Settlement Agreement, which is Exhibit 15, and  
6 looking to Page 3 of the Settlement Agreement,  
7 under Section IV.B, just to read it out loud,  
8 it says "The Settling Parties agree and  
9 recommend that for purposes of calculating the  
10 revenue requirement adopted in this Agreement,  
11 the equivalent of a 9.4 percent Rate of Return  
12 on Equity is reasonable." Doesn't that suggest  
13 that the Parties did not, in fact, reach a  
14 definitive agreement that 9.4 percent is the  
15 just and reasonable return on equity?

16 A. (Carson) It's true that it's the way it is said  
17 here, it's "the equivalent of a 9.4 percent  
18 ROE".

19 Q. And would you also agree with me that, on Page  
20 5 of the Settlement Agreement, it says that the  
21 resolutions adopted by the Parties in this case  
22 "are the results of compromises that do not  
23 necessarily reflect what any party would  
24 individually recommend to the Commission but

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1           which, overall, result in just and reasonable  
2           rates"?

3   A.     (Carson) I agree.

4   Q.     Right. So, would that therefore suggest that a  
5           settlement agreement that calls for "the  
6           equivalent of a 9.4 percent rate of return on  
7           equity" is I guess you would call it a  
8           placeholder number for purposes of reaching  
9           agreement?

10  A.     (Carson) Yes.

11  Q.     Okay. And would you agree with me, just so  
12           that it's clear, since you testified that the  
13           Company's requested return on equity was  
14           10.75 percent, you would agree with me that  
15           Mr. Naylor's recommendation was 9.6 percent,  
16           true?

17  A.     (Carson) Correct.

18  Q.     And the recommendation of Mr. Johnson, who  
19           testified for the OCA, was 8.83 percent?

20  A.     (Carson) Correct.

21  Q.     Okay. Moving on to the question of rate  
22           design, you mentioned, Ms. Carson, that what  
23           the Parties agreed to was based on the  
24           recommendation of Mr. Rubin, who was our

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 witness, true?

2 A. (Carson) True.

3 Q. Mr. Rubin testified, and I'm looking -- I don't  
4 know, the exhibit numbers are a bit screwed up,  
5 but I believe that Mr. Rubin's testimony is now  
6 Exhibit 21. And, at Page 5 of his testimony,  
7 he says "I recommend that the Company start to  
8 rationalize its rate structure. By  
9 rationalizing the rate structure, I mean that  
10 there should be a target to collect  
11 approximately one-third of residential revenues  
12 through customer charges and that the usage  
13 (per-ccf) rates should be moved closer together  
14 than they are today." Would it be fair to say  
15 that that recommendation is the one that was  
16 adopted in the Settlement Agreement?

17 A. (Carson) Yes.

18 Q. And, when he talks about moving closer to the  
19 goal of "collecting approximately one-third of  
20 residential revenues through customer charges  
21 and that the usage rate should be moved closer  
22 together than they are today", we achieved  
23 that, but we did not get to that magic  
24 "one-third" mark, correct?

{DW 15-199} {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 A. (Carson) The "one-third" mark I believe was  
2 achieved overall, across all three systems.

3 Q. But not as to each of those individual rates,  
4 true?

5 A. (Carson) Correct.

6 Q. Could you talk a little bit about why we didn't  
7 get all the way there?

8 A. (Carson) Because they were sort of coming from  
9 opposite ends of the spectrum, so we just moved  
10 closer towards that goal.

11 Q. Why didn't we go all the way then?

12 A. (Carson) We decided it was too dramatic a swing  
13 at this point.

14 MR. KREIS: Thank you. Mr. Chairman,  
15 I think that's all the questions I have.

16 CHAIRMAN HONIGBERG: Mr. Laflamme, do  
17 you have any questions?

18 MR. LAFLAMME: I don't.

19 CHAIRMAN HONIGBERG: Commissioner  
20 Scott.

21 CMSR. SCOTT: Good morning. Probably  
22 for the Company, but, again, I'll leave it to  
23 whoever feels best to answer.

24 BY CMSR. SCOTT:

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. I was curious, is there an update on the City  
2 of Laconia and what they're doing with their  
3 treatment rates? Is there anything new?

4 A. (Vaughan) There is not.

5 Q. And do you have an estimated time frame? You  
6 know, do they have a meeting, town meeting or  
7 something, or council meeting? Or, what's  
8 going to drive that?

9 A. (Vaughan) I believe it's going to be driven by  
10 the Franklin treatment center. And they're  
11 basically the source of the initiatives for any  
12 rate case. I don't think the City of Laconia,  
13 at this point in time, has a permanent date or  
14 even an approximate date when an increase might  
15 occur.

16 Q. But, obviously, in some fashion, they have  
17 signaled that they're thinking about that, is  
18 that fair?

19 A. (Vaughan) Exactly. Yes.

20 Q. Ms. Carson, can you, on the Settlement, the  
21 last page -- I got to find it myself here, hold  
22 on a second. Which has the chart, on the very  
23 last page. The very last columns, where it  
24 says "% change", that's in relationship to

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 present, correct?

2 A. (Carson) Correct.

3 Q. So, I probably misheard you, when you were  
4 being questioned by Attorney Richardson, I  
5 thought I heard you say the "Bow Water change  
6 would be 38 percent change" in some?

7 A. (Carson) That was for an average user bill.  
8 So, it varies depending on how much usage they  
9 have.

10 Q. Okay. So, not the change in the rate *per se*,  
11 but the change for an average?

12 A. (Carson) Correct. The rate on the Settlement  
13 Agreement is for the overall allowed revenue.  
14 The rate that I mentioned on, as far as the  
15 customer impact, was for someone using exactly  
16 3,000 gallons per month, that the increase  
17 would be roughly 38 percent. But it varies  
18 based on what their usage is.

19 Q. Okay. Thank you. And, Mr. Vaughan, I  
20 understand that you're adopting Mr. Crawshaw's  
21 testimony?

22 A. (Vaughan) Yes.

23 Q. I had some questions on that. If -- forgive me  
24 while I go to that. So, on Page 4 of his

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 prefiled, tell me when you're there.

2 A. (Vaughan) Yes, I am here.

3 Q. He mentions work to be done "over the next  
4 several years", which makes a lot of sense to  
5 me. But the second bullet says that will  
6 "allow them to consistently" -- allow the  
7 Company to "consistently meet DES quality and  
8 service standards". That begs a question. So,  
9 are we now inconsistently meeting standards or  
10 what's your compliance history?

11 A. (Vaughan) We are not inconsistently meeting  
12 standards currently. This is meant to address  
13 issues such as the pump station maintenance  
14 that is required there, which we have adopted  
15 perhaps more aggressively in the last couple of  
16 years. Flushing would be another example. And  
17 pretty much, you know, the ability to respond  
18 to the customer questions and concerns,  
19 although they have not necessarily equated to  
20 DES, but more customer service orientation.

21 Q. Okay. So, to your understanding, there's no  
22 compliance issues currently with DES or a  
23 history of non-compliance?

24 A. (Vaughan) There is currently no compliance

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 issues.

2 Q. Okay. And the next page of his testimony  
3 appears to be letters to customers letting them  
4 know about the potential changes, is that  
5 correct?

6 A. (Carson) You mean the next exhibit?

7 Q. Yes. I'm sorry. I'm looking at your original  
8 binder that was filed. So, I can find that, if  
9 you'd like?

10 A. (Vaughan) Would you repeat that question  
11 please.

12 Q. So, I think we're now talking about Exhibit 12,  
13 Tab 7.

14 A. (Vaughan) Yes.

15 Q. So, those are letters that have gone out to  
16 your customers to explain your filing, is that  
17 correct?

18 A. (Vaughan) This is a letter to the customers,  
19 yes.

20 Q. So, assuming we approve the Settlement  
21 Agreement, what kind of outreach will there be  
22 to customers, so they know when to expect a  
23 change and what the change will be, how will  
24 that be done?

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 A. (Vaughan) Are you -- do I understand your  
2 question as to when rates will increase or if  
3 there's any change in the service level, if I'm  
4 not mistaken?

5 Q. No. I'm inquiring about communications with  
6 customers. So, assuming the Commission  
7 approves the Settlement, it's -- the Settlement  
8 results -- what comes out of the Settlement is  
9 different than your original filing. So, as a  
10 customer, how will I know what's happening and  
11 how will I know what to expect on my bill?

12 A. (Vaughan) I believe, and I will confer with  
13 Mrs. Carson, if I may?

14 Q. Sure.

15 A. (Carson) I think we will send out a notice,  
16 once everything is decided. We also use our  
17 bills, there's a space for a bill message as a  
18 means of communicating. We would use that as  
19 well, which is helpful with customers who  
20 receive paperless bills and they see them  
21 online. And we would also put it on our  
22 website.

23 Q. Thank you. On the first page of the original  
24 Petition for Rate Increases, and I caveat this

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 with I understand it's different now for the  
2 Settlement, but the second bullet talks about  
3 "consolidated water rates", and says "it will  
4 benefit the Company and its customers". And,  
5 then, the next line, if somebody could explain  
6 to me so I understand what the rationale was,  
7 "the Company will have a larger base of water  
8 customers to spread capital costs and increased  
9 expenses", and it will "increase rate stability  
10 over time". I understand administrative  
11 benefits to consolidated billing. But I wasn't  
12 following how you get more customers -- the  
13 "costs would be spread over more customers".  
14 Can somebody explain the thinking or what that  
15 means?

16 A. (Carson) What document are you on?

17 Q. So, I am on the original Petition for Rate  
18 Increases. It's the first page. So, that  
19 would be the Tab 1, or Exhibit 6. Oh, it's not  
20 Tab 1. I apologize. Yes. I apologize.  
21 Exhibit 1.

22 A. (Vaughan) Exhibit 1.

23 MR. RICHARDSON: I don't believe they  
24 have that in front of them. And I believe

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 you're referring to the Petition, which would  
2 have been --

3 CMSR. SCOTT: Correct.

4 MR. RICHARDSON: -- come from my  
5 office. And I don't know if this will help the  
6 witnesses remember, but I believe what that  
7 refers to is is in a -- with separate rate  
8 structures, investment of capital into a single  
9 system is no longer -- the costs of that are no  
10 longer distributed throughout the entire  
11 utility. It goes into one bucket to determine  
12 whether or not that rate structure is over or  
13 under earning. So, if you spend \$50,000 in a  
14 100 or 200 customer system, that has a more  
15 significant impact on your earnings than if you  
16 had spread that out over a 400 customer system.

17 That's my understanding of the  
18 discussions I had with the Company that led to  
19 that being in the Petition. But I think  
20 they're more qualified than I am to elaborate  
21 on that.

22 **BY THE WITNESS:**

23 A. (Vaughan) I think I can supplement that. If I  
24 interpret your question, Commissioner, I think

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1       you're asking how we can mitigate rates, and I  
2       think there was a reference to customer growth  
3       and so forth. And I believe I had that in my  
4       testimony someplace. But, as you know, we've  
5       acquired two small systems, very small,  
6       relatively speaking. Not the smallest in the  
7       state, but, when we speak of White Rock, about  
8       95 customers, we speak of Lakeland, in Belmont,  
9       of about 150 customers. You know, totaling 250  
10      customers are relatively small to support the  
11      burden of a rate case, and, you know, expert  
12      witnesses, etcetera. And, so, our strategy and  
13      our projection of growth and planning has to do  
14      with increasing that customer base. And we can  
15      do that in various ways. They are not always  
16      available to us. Opportunities will come along  
17      where we can make a judgment and see if they  
18      are appropriate to help expand our customer  
19      base.

20             But, that said, there are several things  
21      that occur when we do increase and we do  
22      consolidate. As an example, one might be the  
23      cost of auditing, which we're required to do as  
24      a subsidiary in our corporate structure.

{DW 15-199}   {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Auditing is probably going to cost  
2 \$13,000-\$14,000 yearly. That becomes diluted  
3 over that customer base. Another thing might  
4 be management. You know, my salary,  
5 Mrs. Carson's salary, we plan to spread that  
6 over, you know, a bigger number of customers.

7 So, that was the attempt. Unification of  
8 rates is a goal going forward. We may or may  
9 not get there in the next rate application, but  
10 that certainly is a goal. We can reduce some  
11 accounting, expenses, administration. We can  
12 handle much more customer service by virtue of,  
13 as an example, monthly billing. We found that  
14 monthly billing totally reduces the number of  
15 billing complaints. The customers can predict  
16 their bills month to month. They can monitor  
17 their consumption. So, that's a big assist to  
18 us.

19 So, in the context, I think, of what I was  
20 referring to, and maybe you're alluding to, I  
21 think that is the goal, and I think that we can  
22 get there. And I think that we can make  
23 everybody happy; the Commission, our customers,  
24 and, certainly, the Company.

{DW 15-199} {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 MS. PATTERSON: Excuse me for one  
2 moment. If I might just note, Commissioner  
3 Scott, that Mr. Naylor does discuss some cases  
4 in the past that have talked about spreading  
5 the costs of investment over a larger group of  
6 customers. And that would be found on Pages 2  
7 to 4.

8 CMSR. SCOTT: Thank you.

9 BY CMSR. SCOTT:

10 Q. And thank you for that, Mr. Vaughan. You've  
11 led me to the next question. I was going to  
12 ask Ms. Carson, because it was on Page 7 of her  
13 testimony, but it sounds like either one of  
14 you. Did you have an estimate on the cost  
15 savings, as far as administratively, of  
16 unified, consolidated rates?

17 A. (Carson) I think that was in one of the data  
18 requests, that we came up with an actual -- a  
19 dollar amount. But it's not in my testimony.

20 Q. Did you have a rough estimate what you were  
21 expecting?

22 A. (Carson) The administrative savings of  
23 consolidating the rates? That's a really hard  
24 thing to put a number on right now.

{DW 15-199} {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. Okay.

2 A. (Carson) No, I don't have one right now.

3 CMSR. SCOTT: All right. Fair  
4 enough. That's all I have.

5 CHAIRMAN HONIGBERG: Commissioner  
6 Bailey.

7 CMSR. BAILEY: Thank you. Good  
8 morning.

9 WITNESS VAUGHAN: Good morning.

10 BY CMSR. BAILEY:

11 Q. I'd like to talk about the cost of capital.  
12 And I understand that the Settlement produces  
13 an "equivalent rate of return on equity" or a  
14 "return on equity of 9.4 percent". What  
15 capital structure has been assumed?

16 A. (Carson) I would need a minute to look it up in  
17 the permanent filing.

18 Q. I can tell you what you --

19 A. (Carson) Oh.

20 Q. I mean, you testified it should be about,  
21 rounded off, "42 debt/58 equity". Mr. Rubin, I  
22 believe, testified that it should be -- well,  
23 maybe Mr. Naylor testified "50/50". So, did  
24 you make any progress on settling that or is

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 it -- I'm trying to figure out what the rate of  
2 return is going to be for this company?

3 A. (Descoteau) The rate of return is going to be  
4 7.21 percent. It's shown in Exhibit 20, Page 1  
5 of Exhibit 20.

6 Q. Oh, is that one that I had on the desk that we  
7 haven't looked at yet?

8 A. (Descoteau) Correct.

9 Q. Thank you.

10 A. (Descoteau) The second line down.

11 Q. Okay. So, what's the cost of debt assumed in  
12 there?

13 A. (Descoteau) That's shown on Page 2. And it  
14 shows the breakdown. The long-term debt is  
15 4.13 percent and the common equity is the  
16 9.4 percent. So, the combination -- I'm sorry,  
17 the weighted -- the long-term debt, the  
18 weighted average cost is 1.72 percent and the  
19 common equity weighted average cost is  
20 5.49 percent, coming up with the 7.21 percent.

21 Q. 7.21 is the rate of return. So, just tell me  
22 what the cost of debt is? It's 1.72?

23 A. (Descoteau) That's the weighted average cost of  
24 debt.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. Okay. So, does this show me the  
2 capital structure? Oh. So, you used the  
3 capital structure proposed by the Company, 42  
4 and 58?

5 A. (Descoteau) Right.

6 Q. Do you think that that -- well, is that a  
7 reasonable capital structure for this company,  
8 in your opinion?

9 A. (Descoteau) Yes.

10 Q. Can you tell me why?

11 A. (Vaughan) I think I may be able to jump in,  
12 Commissioner, here. Prior to the acquisition  
13 of both the White Rock water system and the  
14 Lakeland system, their capital structures were  
15 nearly 100 percent equity. And, so, we've  
16 introduced debt. And the intent was to get to  
17 50/50. However, we underestimated the costs of  
18 transaction and so forth, and we wound up with  
19 I think it's 58 percent of equity, I think you  
20 said, and 42 percent debt, somewhere in that  
21 vicinity.

22 Q. Which cost did you overestimate?

23 A. (Vaughan) We overestimated the costs of  
24 combining an acquisition, acquiring both the

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 White Rock system and the Belmont system, the  
2 Lakeland system.

3 Q. It cost more than you thought it was going to?

4 A. (Vaughan) It did. And, so, we wound up with  
5 the 58/42 ratio, debt/equity ratio --  
6 equity/debt ratio in this case. But, going  
7 forward, we currently and will be trying to  
8 equalize that probably within the next I'm  
9 going to hopefully say six months.

10 Q. Equalize the --

11 A. (Vaughan) Get it much closer to 50/50. But  
12 that hasn't been finalized, but those are our  
13 plans. So, I think that, you know, we've  
14 improved the capital structure from what it  
15 was, and there are several, I think other  
16 systems out there with very, very high equity  
17 ratios. We recognize that equity costs much  
18 more than debt, and that ultimately flows to  
19 the customers. So, we want to be more equally  
20 balanced in future rate applications.

21 Q. I think that's a good approach. But didn't  
22 Mr. Johnson's testimony assert that your level  
23 of capital -- I mean, of equity in your capital  
24 structure was the second highest in all the

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 water companies that he studied?

2 A. (Vaughan) I don't recall that. I do not know  
3 that. But I do know -- I do know that when we  
4 have a lower equity ratio, and particularly  
5 with regard to the size of these companies,  
6 lenders get very leery in loaning money to  
7 250-customer Abenaki Water Company. It cannot  
8 do it on its own. The fact that we had to  
9 co-sign the note, when I say "we", I mean the  
10 holding company, New England Service Company,  
11 had to co-sign with Abenaki. And the reason  
12 is, we're risky. And I don't want to get into  
13 territory that we've already covered, but  
14 that's, in fact, what's happening. And the  
15 capital markets are very weary and they're  
16 risk-averse. And they also look at, you know,  
17 the various jurisdictions in New England or  
18 wherever they're loaning, and they rate the  
19 jurisdictions and they rate the company. And,  
20 so, we wound up with the unfavorable result of  
21 having to co-sign with Abenaki.

22 So, that's just an explanation on the  
23 whole transaction, in terms of, you know, what  
24 we had to do to get financing.

{DW 15-199} {05-12-16}

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Q. But, that said, you're going to go to a 50/50  
2 capital structure in the next six months?

3 A. (Vaughan) Yes. That is correct. That is our  
4 plan.

5 Q. So, if you go to a 50/50 capital structure in  
6 the next six months, and your rates are based  
7 on a capital structure that's closer to 60/40,  
8 at a 9.4 percent return on equity, aren't you  
9 going to produce more revenue than you should,  
10 if you switch to a 50/50 capital structure in  
11 six months?

12 A. (Vaughan) I appreciate that point. However,  
13 our plans are to incur, shall we say, more  
14 debt. And, I'm getting ahead of myself I  
15 think, but I'm just trying to tell you that we  
16 have a plan here, where, if we proceed in a  
17 direction we're going, then we'll have costs  
18 that are going to keep those rates below our  
19 allowed return, our allowed return on equity.  
20 And, really, that's what we look at, is the  
21 return on equity.

22 I think I'm confusing this, but your  
23 question is relative to capital structure. And  
24 we recognize this, and we recognize that, you

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 know, we're skewed slightly towards equity.  
2 But we plan to rectify this in a fashion that  
3 we will not over earn, and we'll be able to  
4 demonstrate that hopefully within the next nine  
5 months or so.

6 Q. But you'll be authorized to earn 7.1 percent.  
7 And, if you change your capital structure, and  
8 you left the return on equity at 9.4 percent,  
9 then your rate of return should be lower than  
10 7 percent.

11 A. (Vaughan) Your point is well taken again. But  
12 I think we're getting into projected Company  
13 strategy that I think we'll be able to  
14 demonstrate, and it will be such that we will  
15 not be over earning. We'll incur more debt,  
16 we'll have more financing, so that the balance  
17 is going to be less, and the equity will be  
18 less. It will be proportionately less, let me  
19 put it that way.

20 Q. Okay. So, if -- let's say, next year we're  
21 looking to see if you're over earning or under  
22 earning, the implied rate -- return on equity  
23 is 9.4 percent, and the capital structure has  
24 changed to 50/50, then, when we calculate the

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 revenue requirement that would tell us whether  
2 you were over earning or under earning, we  
3 would use the new capital structure, the 9.4 on  
4 equity, and whatever your cost of debt is at  
5 that time?

6 A. (Vaughan) Correct.

7 Q. To decide whether you're over earning or under  
8 overing?

9 A. (Vaughan) Yes.

10 Q. Okay. Thank you. Can we turn to the last page  
11 in the Settlement that shows the rates? I  
12 asked at the temporary rate hearing about the  
13 difference between the Commercial A rate and  
14 the Commercial B rate, and the answer was that  
15 the Commercial A rate has a two-inch meter and  
16 B has a one and a half inch meter. Does the  
17 size of the meter change the usage?

18 A. (Carson) It allows for more usage.

19 Q. Right. But, if somebody needed 6,000 gallons,  
20 they would get it on a one and a half inch  
21 meter or a two-inch meter, they'd just get it  
22 faster on a two-inch meter?

23 A. (Carson) I suppose.

24 A. (Vaughan) I have to jump in here a little bit.

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 The size of the meter has to do with the amount  
2 of flow at any given time, instantaneous flow,  
3 and it has to do with the ability of the meter  
4 to measure that accuracy on both sides of the  
5 spectrum. One would be the high flow and one  
6 would be the low flow. So, that's pretty much  
7 how these meters are sized.

8 Q. And is the flow rate significantly different  
9 between a one and a half inch and a two-inch  
10 meter?

11 A. (Vaughan) Yes.

12 Q. Does the customer on Commercial A -- I'm trying  
13 to understand why the usage rate is higher,  
14 just because they get it faster? I mean, the  
15 Customer Charge maybe should be higher, and it  
16 is, but the usage rate is much higher, as is  
17 the Customer Charge. And, so, I don't  
18 understand why the Commercial A rate is so  
19 significantly different than the Commercial B  
20 rate?

21 A. (Vaughan) Excuse me, please.

22 Q. Okay.

23 (Witness Vaughan conferring with  
24 Witness Carson.)

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 MS. PATTERSON: And, while the  
2 Company is consulting, if Mr. Naylor could be  
3 helpful to the Commission, I could offer him  
4 has a witness as well.

5 **BY THE WITNESS:**

6 A. (Carson) The rates were set up in the previous  
7 filings. And, then, the OCA modified the rate  
8 design in this filing, and we agreed to work  
9 with their design. So, --

10 BY CMSR. BAILEY:

11 Q. But the OCA had the same concern about  
12 Commercial Rate A. They didn't understand why  
13 it was so much higher than Commercial B, and  
14 Commercial A went up. So, it hasn't reduced  
15 the gap between Commercial A and Commercial B  
16 rates at all. It's kept it the same, or made  
17 it even wider maybe.

18 CMSR. BAILEY: Maybe we do need Mr.  
19 Naylor to shed some light on this. So, do we  
20 have to swear him in or --

21 CHAIRMAN HONIGBERG: It would be best  
22 to swear him in, if we're going to be hearing  
23 him testify. So, why don't you do what you can  
24 with the other witnesses, and we'll have

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 Mr. Naylor sworn in afterwards.

2 CMSR. BAILEY: All right. Thank you.

3 I think that's all I have. Thank you.

4 BY CHAIRMAN HONIGBERG:

5 Q. Ms. Carson, I want to ask you quickly about the  
6 bill impacts and your reference to "average  
7 users". I think I read in Mr. Rubin's  
8 testimony that, in fact, the Bow customers use  
9 a lot more water than the Belmont customers.  
10 Did I -- am I remembering that correctly, and  
11 is that consistent with your understanding?

12 A. (Carson) Yes, they do.

13 Q. And is that -- is that consistent? Has it been  
14 like that over time --

15 A. (Carson) Yes.

16 Q. -- since you've owned the Company? So, does  
17 it -- when you calculate these average user  
18 bill impacts, would it make more sense to treat  
19 the Bow users differently, since, in fact, the  
20 average Bow user is different from the average  
21 Belmont user?

22 A. (Carson) Right. The average amount that I  
23 used, the 3,000, was the average for the whole  
24 system, for all of the water users, all the

[WITNESS PANEL: Vaughan~Carson~Descoteau]

1 residential users.

2 Q. So, do you happen to know what the average  
3 Belmont residential user uses?

4 A. (Carson) Probably closer to 2,000 gallons per  
5 month.

6 Q. And how about the average Bow user?

7 A. (Carson) Closer to 4,000 gallons per month.

8 Q. All that said, the percentage changes probably  
9 aren't going to be radically different from  
10 what you said, that there's -- the usage charge  
11 will affect that, but those percentages are  
12 going to be similar, aren't they?

13 A. (Carson) Yes.

14 Q. But the dollars will change? The dollars will  
15 be bigger for the Bow users and smaller for the  
16 Belmont users, correct?

17 A. (Carson) For -- yes. The increase for the  
18 Belmont Water users is smaller.

19 Q. In helping your customers understand what's  
20 going to be happening, have you given thought  
21 to changing the messaging slightly for the  
22 Belmont and Bow users, since, if you tell the  
23 Bow users that the average user on our system  
24 is going to see X, and many, if not most, of

1 the Bow users are, in fact, going to see  
2 something different, do you think you might  
3 avoid some unpleasant phone calls, if you  
4 change the messaging a little bit for those  
5 people?

6 A. (Carson) And, since I will be taking those  
7 phone calls, I will do that.

8 CHAIRMAN HONIGBERG: That's all I  
9 had.

10 Commissioner Bailey, do you want to  
11 have -- do we want to have Mr. Naylor sworn in  
12 before we circle back to Mr. Richardson for any  
13 redirect, and actually Ms. Patterson will be  
14 entitled to redirect as well? Does that make  
15 sense?

16 CMSR. BAILEY: Sure. I would like to  
17 hear from Mr. Naylor.

18 CHAIRMAN HONIGBERG: Mr. Naylor, are  
19 you comfortable where you are, being sworn in  
20 right where you sit?

21 MR. NAYLOR: Yes, I am.

22 CHAIRMAN HONIGBERG: All right.

23 Mr. Patnaude.

24 (Whereupon **Mark A. Naylor** was

1                                   duly sworn by the Court

2                                   Reporter.)

3                                   **MARK A. NAYLOR, SWORN**

4 BY CMSR. BAILEY:

5 Q.    Mr. Naylor, can you explain to me why the  
6        Commercial A usage rate and Customer Charge  
7        rate is so much higher than Commercial B rates.

8 A.    (Naylor) Yes, I think I can. And I want to  
9        refresh my memory. The indication earlier was  
10       that the Commercial A customer is a two-inch  
11       meter and the Commercial B is one and a half,  
12       is that correct?

13 Q.    That's my understanding.

14 A.    (Naylor) I believe that's correct. Okay. I  
15        don't hold myself out as a cost of service  
16        expert, in terms of rate design, but I do  
17        understand most of the concepts. And, I think,  
18        you know, we were comfortable with what  
19        Mr. Rubin presented. Very often, in these  
20        small company cases, we don't do much with rate  
21        design. Because, typically, what we're seeing  
22        is, you know, fairly large increases to start  
23        with with water utilities, and then rate design  
24        tweaks can really make it much worse. But we

1       felt like what Mr. Rubin was proposing was  
2       reasonable, that the impacts were not that  
3       egregious, considering that one of the systems  
4       was getting an increase of, you know, in excess  
5       of 40 percent and another one was in the 30s, I  
6       think.

7               But, more specifically, my understanding  
8       of how meter sizing works, in terms of  
9       calculating appropriate rates, is that it's  
10      based on demand factors that are calculated  
11      based on those meter sizes. If I had a copy of  
12      my -- it's the AWWA M1 Manual that I'm sure the  
13      Company witnesses are familiar with, most of  
14      the water rate design practices in the country  
15      come from that M1 Manual. And there's quite a  
16      lengthy discussion in there about demand  
17      factors that are specific to water. Of course,  
18      demand is something that's taken into  
19      consideration in the other utilities as well,  
20      electric and gas. But that's why there's a  
21      rate difference in the A and B.

22              Now, we have followed, in adopting  
23      Mr. Rubin's approach, without -- I don't  
24      believe we made any changes to it. And the

1 other witnesses could probably verify that. I  
2 think we adopted it entirely. So, he did  
3 testify that these differences have been  
4 reduced somewhat.

5 So, you know, I think we were comfortable  
6 with those changes, you know, in addition to  
7 the other things that were going on in this  
8 case, such as the consideration of  
9 consolidating the residential rates, cost of  
10 capital issues, all that kind of stuff. So, we  
11 did not want to -- and he recommended moving in  
12 the direction of in approving the rate design,  
13 but not all the way. So, you know, the  
14 difference between the Commercial A and the  
15 Commercial B is still there, but I think it's  
16 reduced somewhat. And, certainly, over time,  
17 the goal can be achieved of, you know, much  
18 more efficient and correct rate design, but  
19 there's a lot of other considerations, too. We  
20 just did not feel like we could go completely  
21 to, you know, I think his recommendation was  
22 one-third of the -- one-third of the customer  
23 bill should be collected through fixed charge  
24 and the other two thirds through the

1 consumption charge, I believe, is sort of the  
2 general idea. So, we did not get to that  
3 level, but it's improved.

4 Q. I understand that point. That's not the point,  
5 though, that I was focusing on. If you look at  
6 Mr. Rubin's testimony, which is -- I wrote  
7 "Exhibit OCA", that's not very helpful --  
8 Exhibit 21, on Page 5. I'm asking the question  
9 about the fourth bullet. And he says "I  
10 question whether there is a reasonable  
11 justification for Belmont's existing rates for  
12 commercial customers being substantially  
13 higher" -- oh, sorry, that's not the right one.  
14 Maybe I misread it.

15 A. (Naylor) Yes. If I could jump in? I think the  
16 root of the problem is that there's not a rate  
17 design study that had been conducted, and he  
18 makes that point. And, so, these are his  
19 recommendations and conclusions, just based on  
20 his observations, not on any study that was  
21 conducted. So, -- but, you know, I would  
22 reference the M1, the AWWA M1 Manual, and we  
23 can certainly make the relevant provisions of  
24 that, you know, put that in the record, if you

1 would like. But you look at the different  
2 meter sizes, from five-eighths all the way up,  
3 the recommended rates escalate quite  
4 dramatically as the meter size increases.

5 The last case I believe we did any work on  
6 this was Rosebrook Water, because they have the  
7 Mount Washington Hotel as a customer, and I  
8 believe they have a six-inch meter. And their  
9 rate is, you know, substantially -- it's not  
10 linear, it's like -- the increase is not  
11 linear, it's --

12 Q. Logarithmic?

13 A. (Naylor) I'll take that subject to check. I  
14 know you have an engineering background, so  
15 you're probably correct. But, you know, I can  
16 certainly -- we can certainly put into the  
17 record some of the relevant provisions from the  
18 M1 Manual that's really the basis for rate  
19 design throughout the country.

20 Q. I think I was referring to his testimony on  
21 Page 10, around Lines 7 through 11, but I  
22 understand your point. I guess one final  
23 question about this. Does the customer have  
24 any say in what size meter it receives service

1 from?

2 A. (Naylor) I could take a crack at that, and Mr.  
3 Vaughan, with his hands-on experience, could  
4 probably give you an answer, too. I think it's  
5 based on an analysis of the expected demand and  
6 the expected flows for that particular  
7 customer. Residentials, almost across the  
8 board, are five-eighths. There may be some  
9 reason that it's slightly larger. But I think,  
10 ultimately, it's the Company's decision what  
11 meter, what's the appropriate meter for that  
12 customer.

13 A. (Vaughan) I think I can jump in here also. And  
14 I agree with Mr. Naylor's comments. First of  
15 all, the Company should be responsible, and  
16 generally is, regarding the size of meters, and  
17 it's usually in their rules and regulations.

18 In every subsidiary we have, and we're not  
19 that huge, I don't want to give you that  
20 impression just because I said "subsidiary",  
21 but the rules and regulations say that the  
22 Company shall determine the size of the water  
23 meter.

24 What actually happens is that, if there's

1 a new building or a new project which requires  
2 water -- excuse me -- what will happen is that  
3 the water meter will be sized by the designer  
4 or the engineer or the architect as the case  
5 may be, and they are typically not familiar  
6 with meter sizing. It's a very esoteric  
7 science, if you will. So, if there's a three-  
8 or four-inch, or even a six-inch water meter at  
9 the Mount Washington Hotel, it's because  
10 there's probably a six-inch pipe that feeds the  
11 water meter.

12 In a residential setting, you typically  
13 have a one-inch service that comes into the  
14 house, or it could be a three-quarter-inch  
15 also, a residential service should really use  
16 maybe a five-eighths-inch meter, or what they  
17 call a "five-eighths by three-quarter-inch  
18 meter". They're both the same, with the same  
19 capacity, except one can accommodate a  
20 half-inch pipe and the other one accommodates a  
21 three-quarter-inch pipe.

22 To make a long story short here, when we  
23 took over the Belmont system, we also took over  
24 whatever meters were there. So, I suspect that

1 the sizing of those meters is a historical  
2 thing and that we are dealing with them. It  
3 may be that we should take a look at those size  
4 of the meters and water consumption that is  
5 measured by each of those locations.

6 And I don't know, Mrs. Carson would know  
7 how many we have, but I think there's probably  
8 about four or five maybe, perhaps in that  
9 magnitude. And I've asked the same question  
10 myself relative to the size of those meters.

11 So, I think we're going to take it upon  
12 ourselves to do something, you know, down the  
13 road, but before our next rate application,  
14 which is no sooner than 2019.

15 But, you know, that's basically how things  
16 unravel or unfold relative to sizing meters.  
17 They just get installed. The water utility  
18 technician defers to the engineer, typically.  
19 And, in my case, as I look over things, I don't  
20 always catch the size of the meter that's being  
21 installed, because there are so many things  
22 that are happening that distract my attention.

23 Q. You said that it's determined by the designer,  
24 you mean the architect of the building or

1           somebody who's putting the building up for the  
2           first time?

3   A.    (Vaughan) It would be the designer, for  
4           example, the mechanical contractor or the  
5           mechanical engineer.

6   Q.    Not somebody who worked for the water company?

7   A.    (Vaughan) Correct.

8   Q.    Somebody who works for the business that's  
9           occupying the building?

10  A.    (Vaughan) Or somebody who is designing the  
11           building, because that's when it starts.

12  Q.    Okay.

13  A.    (Vaughan) As an example, when those multifamily  
14           buildings were put in in Belmont, I'm sure what  
15           happened was the plumbing was designed and so  
16           forth, and it may be that the meter was sized  
17           to meet the plumbing, and not the demands. I'm  
18           not sure. And it's a great point. And I think  
19           that we need to look into that at the end of,  
20           you know, the next two or three years or so.

21  Q.    And the one that just jumps out at me is the  
22           Commercial A rate, because there's only one  
23           customer, according to the testimony, on that  
24           rate, and it happens to be another public

1 utility. So, that would be good, if you could  
2 look at that.

3 A. (Vaughan) Uh-huh. Yes.

4 CMSR. BAILEY: Thank you.

5 MR. KREIS: Mr. Chairman, if I might  
6 just interject for a second. I do want to  
7 apologize to everybody in the room for not  
8 bringing Mr. Rubin here to testify today. As I  
9 think about it, the Staff and the Company were  
10 both very, I think, maybe grateful even, that  
11 we contributed that degree of rate design  
12 expertise to the case. And, in the ordinary  
13 course, Mr. Rubin would be sitting up in the  
14 witness box, along with the other witnesses,  
15 supporting the way the case was resolved. We  
16 just opted not to do that, basically, because  
17 he's from out-of-state and we would have to fly  
18 him in.

19 But I'd be happy to send a record  
20 request along to him or have him address this  
21 question in some way. I'm sure he'd be happy  
22 to do that. I wouldn't be able to do that, I'm  
23 even less expert than Mr. Naylor is.

24 Just want to throw that out there as

1 a possibility, if you think it would be useful.

2 CHAIRMAN HONIGBERG: Thank you for  
3 that offer, Mr. Kreis. And that probably isn't  
4 necessary, but we appreciate the thought there.

5 Mr. Richardson, before you go back to  
6 your witnesses, or Ms. Patterson before you go  
7 back to Ms. Descoteau, since Mr. Naylor ended  
8 up testifying unexpectedly, does anyone have  
9 other questions for Mr. Naylor, since he's  
10 under oath and available? Commissioner Scott?  
11 Mr. Richardson?

12 MR. RICHARDSON: I'd just clarify  
13 that I placed a wager that Mr. Naylor would  
14 testify before this began. So, it wasn't  
15 entirely "unexpectedly". But I have no  
16 questions for him.

17 CHAIRMAN HONIGBERG: Mr. Kreis?

18 MR. KREIS: No questions.

19 CHAIRMAN HONIGBERG: Mr. Laflamme?

20 MR. LAFLAMME: No questions.

21 CHAIRMAN HONIGBERG: All right. I  
22 guess I'll hand it over to you, Mr. Richardson.  
23 I certainly would want you, and if you don't, I  
24 will, ask your witnesses if anything Mr. Naylor

1           has said has caused them to change or they want  
2           to supplement anything. And Mr. Vaughan is not  
3           shy, he's already done some. But, if you would  
4           start there, and then ask any other questions  
5           you have for your witnesses, that would great.

6                           MR. RICHARDSON: Certainly.

7   **REDIRECT EXAMINATION**

8 BY MR. RICHARDSON:

9 Q.       And, Ms. Carson and Mr. Vaughan, do you have  
10           anything to add or respond to from the other  
11           testimony that you've heard today?

12 A.       (Carson) No, I do not.

13 A.       (Vaughan) I do not either.

14 Q.       Okay. I think I'll start with the issue that  
15           we just ended on, which is the commercial rate  
16           design. And I'll ask this question, I think  
17           I'll start with you, Don, if I may. I believe  
18           you testified that the larger meter size allows  
19           for larger flow, is that right?

20 A.       (Vaughan) That's correct.

21 Q.       And is it true that higher flows require larger  
22           size mains and pipes to get the water to a  
23           building?

24 A.       (Vaughan) Incrementally, they do, yes.

1 Q. And do those have higher costs, I assume?

2 A. (Vaughan) Yes.

3 Q. And what about larger pumps, is that another  
4 factor, that is when you have larger flow  
5 requirements to serve a building?

6 A. (Vaughan) Yes. And I think it's really  
7 illustrated when a system has public fire  
8 protection, hydrants, for example, where you  
9 could normally get along with two-inch water  
10 mains in the distribution system, now you have  
11 to plan for sixes and eights and twelves and so  
12 forth, and larger pumps. And all of this is  
13 expensive, it drives up capital costs,  
14 maintenance, and the operations. So, it has a  
15 effect on increasing costs to that particular  
16 customer.

17 Q. And, as a planning board or former planning  
18 board member, I was sitting here anxiously  
19 shaking in my chair, and my next question was  
20 whether those meter sizes and flow requirements  
21 are actually driven by the fire code for  
22 particular developments, in your experience?

23 A. (Vaughan) I do not think that they are. Unless  
24 there's a sprinkler service off the domestic

1 supply, and in some cases those exist. But  
2 they may incrementally be larger, but not  
3 significantly that much.

4 Q. Okay. So, let me follow up then. What  
5 percentage of, if you know, Abenaki's costs, or  
6 maybe small water systems in general, are  
7 driven by fixed costs to meet the required  
8 demand versus what I would call "variable" or  
9 "consumption" costs to produce each gallon? Is  
10 there a metric or anything that you use or an  
11 understanding that you have about that?

12 A. (Vaughan) I don't have anything that's rule of  
13 thumb. And I really think that those costs  
14 vary from system to system, depending on the  
15 unique operating characteristics.

16 Q. Uh-huh. But let me ask you to make a  
17 comparison, if I can. And I'll give you an  
18 example of a document you probably haven't  
19 seen. But, at the last NARUC Convention, I saw  
20 something, it was a gentleman from Austin,  
21 Texas, saying that the systems he evaluated  
22 were 80 percent fixed charges or fixed costs to  
23 meet water demand versus 20 percent of the cost  
24 to provide service is actually consumption.

1 Does that sound about right or is it -- is that  
2 completely wrong or do you not know?

3 A. (Vaughan) To be truthful, I do not know  
4 precisely. I have an idea, but I don't know  
5 what these percentages are.

6 Q. Okay. Well, what is your idea? That's fine.

7 A. (Vaughan) My idea is that you have fixed costs  
8 that don't go away. You have payroll, you have  
9 power costs, chemical costs, compliance costs.  
10 And the variable costs have to do with energy  
11 consumption, which I mentioned, you know, you  
12 could put also in the fixed cost to some  
13 extent. The variable costs also include labor  
14 costs, as an example, although you don't have  
15 that much flexibility there. But the fixed  
16 costs carry all the things, like the taxes and  
17 real estate taxes.

18 Q. Sure. But what I'm trying to get at is, is the  
19 rate design that we're asking the Commission to  
20 approve has 30 percent of charges are through  
21 fixed costs. Aren't Abenaki Water Company's  
22 fixed charges closer to -- or, excuse me, its  
23 fixed costs closer to, say, that 80 percent  
24 number that I referenced or what do you think,

1           how do -- what's the break-up of Abenaki's  
2           costs between fixed costs that you incur  
3           whether or not a single gallon is pumped,  
4           various variable ones?

5                         CHAIRMAN HONIGBERG:  Mr. Richardson,  
6           I think he already said he didn't know the  
7           answer to that question.

8                         MR. RICHARDSON:  Okay.

9  BY MR. RICHARDSON:

10 Q.    I see Ms. Carson might have an answer on that.

11 A.    (Carson) I just want to say, the only costs  
12       that I notice that really fluctuate with the  
13       usage are increased chemicals and increased  
14       electric expense for the pumping stations.  
15       Otherwise, everything else is fixed.

16 Q.    So, we're talking about a very small percentage  
17       of your costs being variable or  
18       consumption-based, and a very large percentage  
19       cost-based, is that fair to say?

20 A.    (Carson) Yes.  That's fair.

21 Q.    So, then, why do we decide, as a policy matter,  
22       to base rates with only 30 percent of costs  
23       being charged based on fixed charges versus  
24       70 percent consumption charges?

1 A. (Vaughan) Well, I think that can be arbitrary.  
2 Just want to make two points here. One would  
3 be a system where predominantly you have  
4 seasonal customers. And, to achieve rate  
5 stability, you're going to have to have higher,  
6 much higher, inordinately higher fixed cost  
7 base charges than, say, a Belmont or a White  
8 Rock.

9 The other thing relative to base charges  
10 is that they are unique to the system. And you  
11 would need to do a bill analysis to see what  
12 the rates were, and then have a cost of service  
13 design based on that.

14 A. (Carson) And I'd just like to add, I think,  
15 also, was something that Scott Rubin mentioned  
16 in his -- either on the phone, during a  
17 conference, or in his testimony that it's  
18 important for the customer to feel that they  
19 can control their water bill to some degree.  
20 So, I think that that 30 percent mark is fair.

21 Q. Okay. What would happen if we were to reduce  
22 the consumption charges for your commercial  
23 classes? What would the -- what effect would  
24 that have on residential customers?

1 A. (Carson) Then, yes, if we reduce the  
2 consumption charges for commercial, then the  
3 residential consumption charge would have to  
4 increase.

5 Q. Okay. Mr. Vaughan, you said that "the Company  
6 had plans to change its capital structure in  
7 the near future". Do you recall that?

8 A. (Vaughan) Yes.

9 Q. In fact, and I'll reference Docket Number  
10 16-448, that is a Rosebrook docket that was  
11 filed on April 15th. Is that what you were  
12 referring to when you said "the plans"?

13 A. (Vaughan) Yes.

14 Q. And those are pending now before the  
15 Commission?

16 A. (Vaughan) Yes.

17 Q. And is that what you meant when you said "the  
18 plan to change the capital structure in a few  
19 months", you were referring to the period for  
20 review and approval of that?

21 A. (Vaughan) Yes.

22 Q. Okay. And, now, either Mr. Vaughan or Ms.  
23 Carson, if you could, the Company's current  
24 rates are based on a 2014 test year, right?

1 A. (Carson) Correct.

2 Q. And that means 2014 plant, right?

3 A. (Carson) Correct.

4 Q. And expenses, right?

5 A. (Carson) I'm sorry. You said "the Company's  
6 current rates", are you meaning --

7 Q. I'm sorry. The rate increase proposed in the  
8 Settlement Agreement, everything is based on  
9 2014 numbers, right?

10 A. (Carson) And the *proforma* expenses.

11 Q. Correct. And those are for plant added in  
12 2014, during the test year, right?

13 A. (Carson) And 2015.

14 Q. What's the amount of the 2015 addition?

15 A. (Carson) What's the amount of the 2015  
16 addition?

17 Q. Yes. Or what's that for? I had -- okay.

18 A. (Carson) We included additions for --

19 Q. Okay. I apologize.

20 A. (Carson) Okay.

21 Q. So, there was a 2015 addition.

22 A. (Carson) Uh-huh.

23 Q. That's been included in rates. But there's no  
24 proposal to put 2016 plant in rates, right?

1 A. (Carson) Correct.

2 Q. So, if you were to look at the capital  
3 structure in order to fix this, you would want  
4 to look at what 2016 plant was, 2016  
5 improvements, in order to make the  
6 determination as to whether or not the Company  
7 was over earning or under earning, is that  
8 right?

9 A. (Carson) You mean, so, we would have a full  
10 year with the new rates and with the --

11 Q. Right.

12 A. (Carson) -- the plant in place? Yes. That's  
13 makes sense.

14 Q. I mean, effectively, what I'm asking is is that  
15 the goal would be to look forward with the  
16 additional debt and evaluate the Company's  
17 earnings, and that you can't simply change the  
18 capital structure without looking at other  
19 changes like expenses, plant in service, that  
20 type of thing?

21 A. (Carson) Right. And the change in capital  
22 structure, the possible increase in debt would  
23 also -- what would come along with it, it would  
24 be, you know, the addition of another system.

1           So, it would really -- there are a lot of  
2           factors at play.

3   A.   (Vaughan) If I might add, it would be the  
4           addition of another system at lower rates.

5                   MR. RICHARDSON:  That's all my  
6           questions.  Thank you.

7                   CHAIRMAN HONIGBERG:  Ms. Patterson,  
8           do you have any further questions for Ms.  
9           Descoteau?

10                   MS. PATTERSON:  No.  Thank you.

11                   CHAIRMAN HONIGBERG:  All right.  If  
12           there's nothing else for the witnesses, they  
13           can be excused, although you could probably  
14           remain where you are.

15                   We don't need to do anything further  
16           with the exhibits.  Everything that has been  
17           stipulated will be a full exhibit.  We're going  
18           to fix the Exhibit 10 paging situation.

19                   Is there anything else before the  
20           Parties sum up?

21                                   *[No verbal response.]*

22                   CHAIRMAN HONIGBERG:  Didn't think so.  
23           Mr. Laflamme, you can go first.

24                   MR. LAFLAMME:  Thank you.  We support

1 the Settlement. I think it's the best  
2 compromise that could be reached. That said,  
3 you know, it's a significant increase all at  
4 once. I would have preferred to have seen that  
5 spread out a little further, a little more.  
6 But we do support the Settlement, and  
7 understand the challenges of a small water  
8 system that's aging and a small customer base  
9 as well.

10 So, I will say the Company has shown  
11 a nice level of service since they purchased  
12 the Company three years ago. They have made  
13 some improvements, and those are appreciated.

14 CHAIRMAN HONIGBERG: Thank you. Mr.  
15 Kreis.

16 MR. KREIS: Thank you, Mr. Chairman.  
17 Ms. Patterson reminded me that I should at  
18 least explain why we submitted an *erratum*  
19 sheet, I believe it's Exhibit Number 25. In  
20 Mr. Johnson's original testimony he addressed  
21 the issue of flotation costs, and mistakenly  
22 included some references to some cases from  
23 another jurisdiction. And we -- actually, one  
24 of the other Parties picked that up and

1 reminded us that we had made that mistake.  
2 And, so, the *errata* -- the *erratum* sheet simply  
3 makes clear that I believe it was Daniel  
4 Webster himself who first said that "floatation  
5 costs are not an appropriate adjustment for  
6 return on equity here in New Hampshire", or  
7 maybe it was David Souter, some luminary like  
8 that. In any event, we made that  
9 clarification.

10 And, with that, I would like to  
11 express the enthusiastic support of the Office  
12 of Consumer Advocate for the Settlement  
13 Agreement. As I mentioned earlier, the Staff  
14 and the Company were very gracious and  
15 receptive to the input of the two expert  
16 witnesses that we hired to help get this  
17 company closer to just and reasonable rates.  
18 And we're confident that we were able to  
19 achieve that through the Settlement Agreement.  
20 And I recommend it earnestly to the  
21 Commission's favorable consideration.

22 CHAIRMAN HONIGBERG: Thank you,  
23 Mr. Kreis. Ms. Patterson.

24 MS. PATTERSON: Thank you. The Staff

1 recommends approval of the Settlement  
2 Agreement. It will, in our opinion, produce  
3 just and reasonable rates and is in the public  
4 interest. Thank you.

5 CHAIRMAN HONIGBERG: Mr. Richardson.

6 MR. RICHARDSON: I'll echo the  
7 comments of the other Parties. The Settlement  
8 Agreement really does reflect a settlement  
9 agreement that was reached after a very  
10 detailed examination. I think, as the  
11 testimony illustrated today, there are a lot of  
12 challenges in any company, whether it's small  
13 or large, and small water companies carry the  
14 burden of having to look at questions like rate  
15 design sometimes without the benefits of the  
16 level of expertise that you would like to bring  
17 when you -- if you had a larger system.

18 I think the end result is very good,  
19 and it reflects that all the Parties are here  
20 today to support it. Obviously, the rate  
21 increase is -- we're mindful of how it is and  
22 how it affects any customers. And that's  
23 really the reason why we have made significant  
24 efforts to compromise on all the issues, so we

1           could come in today and get this resolved in an  
2           orderly manner.

3                         And I'd like to thank everyone. The  
4           customers that were involved in that, the  
5           Staff, the OCA. I think every one participated  
6           at different times and at different levels  
7           towards a very favorable result, that's a  
8           compromise for all, but I think is good for  
9           everyone.

10                        CHAIRMAN HONIGBERG: All right.  
11           Thank you, Mr. Richardson. Thank you all. We  
12           will adjourn and take this under advisement.  
13           Thank you.

14                        MR. VAUGHAN: Thank you.

15                                 *(Whereupon the hearing was*  
16                                 *adjourned at 11:39 a.m.)*

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