STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

November 7, 2018 - 9:15 a.m.
Concord, New Hampshire

RE: **DW 17-118**
HAMPSTEAD AREA WATER COMPANY, INC.:
Request for a Change in Rates.
(Hearing on a step adjustment regarding return on equity.)

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Kathryn M. Bailey
Commissioner Michael S. Giaimo

Sandy Deno, Clerk

APPEARANCES: **Reptg. Hampstead Area Water Company:**
Robert C. Levine, Esq.
Anthony Augeri, Esq.

Reptg. Residential Ratepayers:
D. Maurice Kreis, Esq., Consumer Adv.
Brian D. Buckley, Esq.
Pradip Chattopadhyay, Asst. Cons. Adv.
Office of Consumer Advocate

Reptg. PUC Staff:
F. Anne Ross, Esq.
Christopher Tuomala, Esq.
Stephen Frink, Dir./Gas & Water Div.
Jayson Laflamme, Asst. Dir/Gas & Water
Robyn Descoteau, Gas & Water Division

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

I N D E X

PAGE NO.

E X H I B I T S

P R O C E E D I N G

CHAIRMAN HONIGBERG: We are here this morning in Docket DW 17-118, which is Hampstead Area Water Company's rate case. We're here for a step adjustment regarding return on equity.

Before we do anything else, let's take appearances.

MR. LEVINE: Good morning, Commissioners. Attorney Robert Levine, for Hampstead Area Water Company. I'm here with Harold Morse, our President; John Sullivan, our Controller; Christine Lewis Morse, our Vice President; and Anthony Augeri, our second General Counsel.

MR. KREIS: Good morning, Mr. Chairman. I'm D. Maurice Kreis, the Consumer Advocate, here on behalf of residential utility customers. The distinguished gentleman to my left is Brian Buckley, the OCA Staff attorney; and sitting up in the witness box is the Assistant Consumer Advocate, Pradip Chattopadhyay.

MS. ROSS: Good morning, Commissioners. Anne Ross, Staff attorney, and with me today is Chris Tuomala, and Jayson Laflamme, Assistant Director of the Gas/Water Division. And on the witness stand is Steve Frink, the Director of the Gas/Water Division; and Robyn Descoteau, a Utility Analyst in the Water Division.

CHAIRMAN HONIGBERG: How are we proceeding this morning, Ms. Ross?

MS. ROSS: We are proceeding with a panel to present a settlement. As you noted in opening the hearing, this settlement is limited to a step adjustment, which involves an adjustment to the return on equity for this particular utility. All of the other rate case issues have been settled. And so, this is a final adjustment. We will not be dealing with any of the original rate case issues, only showing the Commission how this particular adjustment will flow through the schedules.

CHAIRMAN HONIGBERG: Are there any preliminary matters we need to deal with before the witnesses are sworn in? There is an exhibit up here on the table.

MS. ROSS: We do need to introduce

some exhibits, and this would probably be a good time to do that.

CHAIRMAN HONIGBERG: All right. What are they?

MS. ROSS: We have "Exhibit Number 3", which is the actual Settlement Agreement. You all should have received it. It was filed not within the normal five days, but a couple of days ago.

CHAIRMAN HONIGBERG: We have it.

MS. ROSS: And then "Exhibit Number 4" is a sheet indicating the adjustments that are required as a result of the change in the ROE.

(The documents, as described, were herewith marked as **Exhibit 3** and **Exhibit 4**, respectively, for identification.)

CHAIRMAN HONIGBERG: All right. Anything else before we have the witnesses sworn in?

MS. ROSS: Not that I know of.

CHAIRMAN HONIGBERG: Mr. Patnaude.

(Whereupon ***Stephen P. St. Cyr***, ***Pradip Chattopadhyay***, ***Stephen P. Frink***, and ***Robyn J. Descoteau*** were duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Levine, are you going to start us off?

MR. LEVINE: I can, Mr. Commissioner. Thank you. As part of our panel, we have Mr. Stephen P. St. Cyr, our consultant for HAWC.

STEPHEN P. ST. CYR, SWORN

PRADIP CHATTOPADHYAY, SWORN

STEPHEN P. FRINK, SWORN

ROBYN J. DESCOTEAU, SWORN

DIRECT EXAMINATION

BY MR. LEVINE:

Q And, Mr. St. Cyr, I'd like to ask you to please state your name and business address.

A (St. Cyr) My name is Stephen P. St. Cyr. And the business address is 17 Sky Oaks Drive, Biddeford, Maine.

Q And can you please describe what services your company offers?

A (St. Cyr) The company offers accounting, tax, management, and regulatory services.

Q And what do you consider to be your area of expertise?

A (St. Cyr) Those same areas.

CHAIRMAN HONIGBERG: Off the record.

[Brief off-the-record discussion ensued.]

BY MR. LEVINE:

Q I'll repeat that question. What do you consider to be your area of expertise?

A (St. Cyr) Accounting, finance, management, and regulatory services.

Q And what services has your company provided to Hampstead Area Water Company?

A (St. Cyr) So, the company provides assistance with the year-end closing and finalization of the year-end financial statements, tax returns. It also helps HAWC in its filings before the regulatory commission here in New Hampshire, specifically franchise additions or expansions, financings, and rate cases.

Q And are these services within your area of expertise?

A (St. Cyr) Yes.
Q And prior to today have you ever testified before this Commission?
A (St. Cyr) Yes.
Q And has your prior testimony been within this area of expertise?
A (St. Cyr) Yes.

MR. LEVINE: Thank you.

CHAIRMAN HONIGBERG: Mr. Kreis or Ms. Ross?

MS. ROSS: Mr. Kreis can go first.

MR. KREIS: Thank you. Mr. Chairman, my role here today, at least in the context of the record, is to conduct the direct examination of Dr. Chattopadhyay.

CHAIRMAN HONIGBERG: So, who's going to do what next?

MR. KREIS: That's what I'm going to do now.

CHAIRMAN HONIGBERG: Okay.

MR. KREIS: I was just trying to --

MS. ROSS: Well, I was going to introduce my witnesses and start with them, and have me do the direct, but I thought you might want to introduce your witness first.

MR. KREIS: Okay. You just want me to introduce Dr. Chattopadhyay.

MS. ROSS: Yes.

MR. KREIS: And then you can introduce the other witnesses. I'm sorry, Mr. Chairman. We don't usually do it this way. So, it's a little -- okay.

CHAIRMAN HONIGBERG: Choreography is different every time.

MR. KREIS: Yes. This is a form of modern dance.

BY MR. KREIS:

Q Good morning, Dr. Chattopadhyay. Would you please identify yourself for the record with your name and title.

A (Chattopadhyay) Yes. I am Pradip Chattopadhyay. I am the Assistant Consumer Advocate, New Hampshire Office of Consumer Advocate.

Q And you, is it safe to say, are an economist by training?

A (Chattopadhyay) Yes, I am.

Q Could you briefly summarize your background as an economist?

A (Chattopadhyay) I have a Ph.D in Economics from the University of Washington. And I have been working on regulatory issues going all the way back to 2002. I've worked for the Public Utilities Commission at one point, but right for the last four years have been with the Office of Consumer Advocate.

Q And you heard Ms. Ross mention that the focus of the Settlement Agreement that's before the Commission today concerns return on equity. Would it be fair to say that you have some expertise on the subject of return of equity in the context of utility rates?

A (Chattopadhyay) Yes. I have provided testimony on return on equity several times for different utilities, gas and electric, even written testimonies.

Q And among the forums before which you've testified on that subject is the forum we're sitting in today, the New Hampshire PUC?

[Court reporter interruption.]

BY THE WITNESS:

A (Chattopadhyay) Can you please repeat that again? Sorry.

BY MR. KREIS:

Q I just wanted to confirm that you testified here, at the New Hampshire PUC, on the subject of return on equity several times?

A (Chattopadhyay) Yes, I did.

MR. KREIS: I think that adequately introduces Dr. Chattopadhyay.

CHAIRMAN HONIGBERG: Ms. Ross.

MS. ROSS: Thank you. And I'll introduce my two witnesses, and then we'll begin the discussion of the Settlement Agreement.

BY MS. ROSS:

Q So, beginning with Ms. Descoteau, would you state your name and your business address.

A (Descoteau) My name is Robyn J. Descoteau. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire. And I'm a Utility Analyst in the Gas & Water Division.

Q And could you just describe your responsibilities as an analyst.

A (Descoteau) I'm responsible for the examination, evaluation, and analysis of rate and financing filings. This includes the recommendation of changes in revenue levels that conform to regulatory methodologies and/or proposals for economical, accounting, and operational changes affecting regulated utility revenue requirements. I represent Staff in meetings with company officials, outside attorneys, and accountants relative to rate case and financing matters, as well as the Commission's rules, policies, and procedures.

Q Could you -- what is your area of expertise?

A (Descoteau) Accounting and finance.

Q And do you consider the testimony you offer today within that expertise?

A (Descoteau) Yes, I do.

Q Please describe your involvement in this docket.

A (Descoteau) I reviewed the filing, including testimony, which included testing the mathematical integrity of the filing and tracing the filing to the PUC Annual Reports on file at the Commission. I also reviewed the Annual **[**Audit**?]** Report prepared by the PUC Audit Staff. Following this, I asked several sets of discovery questions and reviewed the responses. I participated in the settlement discussions and prepared the revenue requirement schedules that are attached to the Settlement Agreement.

Q Are there any corrections or changes that need to be made to the schedules you prepared?

A (Descoteau) Not that I'm aware of.

Q Do you agree that the Settlement Agreement represents a compromise of the parties' positions?

A (Descoteau) Yes, it does.

Q Okay. Did you prepare or supervise the preparation of Exhibit 4?

A (Descoteau) Portions of it.

Q Portions of it. Okay.

MS. ROSS: I'm going to introduce Mr. Frink now.

BY MS. ROSS:

Q If you could state your name and your current employment?

A (Frink) Stephen Frink. And I'm the Director of the Gas & Water Division.

Q And what was your involvement in this docket?

A (Frink) I was primarily involved in the return on equity issue, as well as reviewing and assisting Robyn and the other people that worked on this docket.

Q Could you briefly describe the settlement process that led to the Settlement we are presenting today.

A (Frink) Well, this is actually the second settlement in this proceeding. The first settlement was, as you already approved, was done some time ago, and left the return on equity issue open. There was a generic return filing made of -- well, three utilities requested a generic return methodology, and it also included that testimony in this filing. So, that process has been flowed through three different dockets. And the outcome of that was always intended to be, assist in determining what a proper ROE would be, which is where we're at now. Through that process, we've reached a settlement that we feel produces a just and reasonable return.

Q And if you turn to Page 7 of the Settlement Agreement with Hampstead, there's a Provision F that talks about an "investigative proceeding". Could you describe to the Commission what the purpose of that part of the Agreement is?

A (Frink) Right. As I just alluded to, at the start of the year there were three water companies that requested a generic ROE methodology be implemented for small water companies. There is an existing ROE methodology for small water companies that was -- it's been in effect since 1990. But these particular companies had more than 600 customers and didn't qualify, and the methodology itself is open to interpretation. The water industry has changed. There are very few water companies that could be used as a proxy group. And to the best of my knowledge, no utility has ever used the generic return methodology that is in our rules, Puc 610.03.

So, the three water utilities petitioned the Commission and there was a docket opened, DW 18-026. And there were discussions in that docket and discussions in the rate proceedings, and it was decided by the Companies and the parties that the best way to address the ROE methodology for small water companies would be through a rule change. So, that's as part of the Settlement, again, the parties agreed that there would be a rule change.

And as I said, there were a number of discussions in 18-026 and 17-118, the current docket, and DW 17-165, which is the Abenaki rate case that's before you. And as part of this proceeding, we agreed to a cost of equity that is not your traditional DCF methodology analysis, but tied to a methodology that is, you can find it in the Settlement on Page 7, that looks at recent returns approved by commissions throughout the country, and uses that, that for water and gas companies, because again there are very few water companies that qualify for the proxy group that our current rule limits it to. So, in this proceeding, we've actually looked at the gas and the water utilities allowed returns in other jurisdictions, approved returns, and used that. And the objective is, and it's something we'll certainly be considering when it comes time to open a rules investigation as one of the methodologies that is under consideration. It's a simple calculation. It produces a reasonable return. And it benefits customers, as it should lower rate case expenses, because it eliminates the need for cost of capital consultants, which can be very expensive, and have a substantial bill impact on utilities with a small customer base.

One other consideration we've discussed is parameters on capital structure, because, as you can see in this proceeding, there is a capital structure that is currently 37 percent equity/63 percent debt, which is not what we would consider an ideal capital structure.

Q Mr. Frink, I'm going to have to stop you for a minute. We are going to get back into capital structure, but I want to just take you back to hit one procedural point.

The Agreement refers -- the Settlement Agreement refers to an "investigation". Can you just explain to the Commission why the parties are not recommending that we go directly to a rulemaking?

A (Frink) The investigation would involve more than just these three companies. And we haven't -- it should involve all small water utilities and anybody who is affected by this. So, it would be appropriate to notice it and invite others in, and have a robust review of it and consider all the proposals. So, that is where we're at. This is a framework that we've discussed specifically to use here. But, until we open this up to the universe that would be impacted by this, it's not what we're proposing for a generic return at this time.

Q And then, I'd like to ask you to give the Commission a little more detail on the resources that this -- this sample generic approach that we've used to reach the Settlement, specifically the RRA data and the type of data that it is comprised of, if you would?

A (Frink) Yes. The RRA data is in the Settlement, if you turn to Page 7. Well, a description of the RRA data that we use is on, let's see, is that Page 7?

A (St. Cyr) Page 3.

A (Frink) Page 3. So, the Commission has access to the RRA's quarterly reports, and --

Q What does "RRA" stand for and what do they do?

A (Frink) It's the Regulatory Research Associates. And it publishes surveys of authorized ROEs for water, gas, and electric utilities. And they produce quarterly reports of those. That, again we have access to that, and it's done quarterly. It lists the -- it provides a median return for all the gas utilities for each quarter. And so, you can actually pick, you can go with the most recent findings or you could just -- in this case we've used a half year, two quarters, you could use four, but that's the basis for this.

Unlike using a -- tying it to the Treasury -- a 30-year Treasury or something like that, this actually, because returns are decided routinely throughout the year all over the country, it gives you a -- it reflects current changes in the market and gives you a broad base that you can use. For reasonableness, we tested it against what the DCF methodology using the generic return produced for a rate, and it seems reasonable.

So, you can simply take those two items, the water utilities' returns, the gas utility returns, we average them, and that gives us a starting point. Then, this provided for an adder that reflects the savings, potential savings from not litigating ROE. An ROE can be very costly to both the company -- to the company, and the Commission actually typically uses an outside consultant, which utilities paying for, and that is recovered through rate case expenses. So that, for administrative efficiency, it would be a very simple process and very transparent process, and the company benefits by getting an ROE that's with an adder that rewards them for doing it in this simplified methodology.

Q Thank you. Now let's move into the capital structure adjustment that are part of this Settlement.

A (Frink) Right. This is where Exhibit 4 comes into play. I prepared Exhibit 4. And what we did is the Settlement that left the ROE open said we'll take all the schedules we've done in this, in the rate case, and simply change the

ROE, and that will flow through and that will be what the increase is.

Well, in the process of reaching a settlement on the ROE, we noted that the capital structure, as already stated, is 63 debt/73 equity.

Q Thirty-seven (37) equity.

A (Frink) I'm sorry. Right, 63 debt/37 equity. And you can, if you turn to Exhibit 4 and look at Page 2, on the current Settlement you can see that, in the first block, it says "Current - Settlement with ROE Placeholder 9.6 percent". And when you see "Total Debt", you see a percent of "63.59", and you see a common equity of "36.41". So, that's the existing capital structure.

In this Settlement, we actually adjusted the capital structure. It falls outside of what Staff considers a reasonable capital structure. And again, looking at Page 2 that we're on, if you look at the "Retained Earnings", you'll see that, again the first block at the very bottom, you'll see "Total Common Equity". One line above that you'll see retained earnings of a negative almost $800,000. We expect, with the rate increases, the permanent rate increase, the step increase, and the second step increase, that that retained earnings -- that negative retained earnings will be going down and the capital structure will be becoming more balanced.

We're also considering the fact that, if a generic return is adopted consistent with what we've done here, that there would potentially be parameters set on the capital structure. So, there may be additional basis points or penalties if you're outside what a reasonable return might be. So, taking that in mind, if that were the case, we would expect further equity infusions by the shareholder, the HAWC shareholder, who has shown a willingness to do that in the past. So, we do expect the capital structure to become more balanced, and that is -- those are a couple of reasons why we considered it appropriate to adjust the capital structure.

So, if you look at the next block down, you'll see the Settlement ROE of "9.95". That is the RRA, plus 50 basis points. We did adjust the capital structure. So, if you go down one more block, you'll see what the imputed ROE is. So, in Block 2, what the Settlement shows is a 55 percent of debt instead of the -- instead of the 64 that you see above, and you see a 45 equity. So, this is a hypothetical capital structure. And then we calculate what the -- we came up with the 6.37 percent overall rate of return. So, down below, to calculate the imputed ROE, we took the 6.37, the existing weighted cost of debt, and backed into what an imputed ROE would be using -- based on the current capital structure.

Q And I think when you were referring to "6.37", you were talking about a rate -- an overall rate of return, not a cost of debt, correct?

A (Frink) That's correct. So, ultimately, because we're changing the capital structure, as well as the return on equity, the overall rate of return is something higher than it would have been if we had just adjusted the return on equity.

Q But you've just indicated a few factors that is going to shift that capital structure going forward, so that we view that as a temporary situation, correct?

A (Frink) That is our -- that's Staff's expectation, yes.

MS. ROSS: Thank you, Mr. Frink. I think, with that, you may proceed with your witness.

MR. KREIS: Thank you.

CHAIRMAN HONIGBERG: Mr. Kreis, I think she's handing off to you.

MR. KREIS: Awesome. Can everybody hear me okay? I'm not sure I can hear myself that well. Everybody is smiling.

BY MR. KREIS:

Q Good morning, Dr. Chattopadhyay. You, as we established earlier, are an economist with expertise in return on equity. True?

A (Chattopadhyay) Yes.

Q And you participated in the negotiations that led to the Settlement that's before the Commission today, did you not?

A (Chattopadhyay) Yes. I did.

Q And have you had a chance to review the terms of the Settlement Agreement, particularly with respect to return on equity and the imputed capital structure?

A (Chattopadhyay) Yes, I did.

Q In your opinion, bearing in mind the requirement that utility rates in New Hampshire have to be just and reasonable, is this a proposed resolution to cost of capital and return on equity issues consistent with the "just and reasonable" standard?

A (Chattopadhyay) Yes.

Q And why do you have that opinion?

A (Chattopadhyay) First, I would point out that, obviously, I did not provide any written testimony in this docket. But, because I was participating in the settlement discussions, I was looking at the current economic realities to check what kind of return on equities the water groups that Dr. Woolridge and even Ms. Ahern had worked on.

Q And just for the record, Dr. Woolridge is the ROE expert who prepared prefiled testimony for the Staff of the Commission, and Ms. Ahern did

the same for HAWC. Is that fair?
A (Chattopadhyay) That is correct.
Q And just so it's clear, neither of those documents is admitted into evidence or has been offered into evidence here. So, anything you say about them is -- or, anything the Commission knows about it is based on your testimony.
A (Chattopadhyay) Okay.
Q No pressure.
A (Chattopadhyay) So, they had essentially taken guidance from the PUC, I think it's 610.03 rule. I, coming into the process at the stage of the settlement discussions, I had also done the same. I tried to go back to the rules. And what I did was I updated the Value Line information that originally Ms. Ahern had, and I looked at it based on the data that was available in October 2018. It's important to keep in mind that the original Value Line information was from October 2017. So, in over a year a lot has changed.
So, just the first thing that I would note, a lot of you may be aware of, the

interest rates have gone up quite a bit. So, for example, the 10-year Treasury bond yield, if you compare what was the situation end of October 2017 and beginning of 2018, the yield has increased roughly about 80 basis points, okay? So, that's one reality.

But, just looking at the Value Line information, I did the calculations for two groups. First group was the one where I had the water utility companies that were not involved in any merger discussions. So, that criteria is consistent across all of the -- across the witnesses in, you know, from the Company and from Staff. And I also use the same approach. And that is consistent with what I do even in other rate cases. So, I've used that as one group.

And the other group is, again, drawing from the PUC rules, I looked at the companies that -- by excluding the California companies as well.

So that was -- and this is what I found based on the recent data. And I'll try to be careful, because I've noted it down here. So, just bear with me.

So, I'll first talk about the PUC rule approach, which is essentially a weightage of 75 percent to the DPS expected growth and 25 percent weightage on earnings per share expected growth.

Q If I might just interrupt, "DPS" stands for?

A (Chattopadhyay) "Dividends per share". One of the things that I do very consistently in all rate cases, when I look at ROE, I only rely on forward-looking expectations. So, that's another point I want to point out that I actually did. And using that, what I found for the PUC rules, the group that only takes out the merger-impacted companies, the number turns out to be 10.2 percent. If I further take out the California companies, the number turns out to be 10.6 percent.

Q Can I just interrupt? Why is it important or appropriate to remove the companies from California from the proxy group that you used to compute an ROE?

A (Chattopadhyay) While I haven't specifically looked into the different California companies, but I'm aware that or at least read about it, a lot of these companies have all kinds of, you know, mechanisms that track their expenses and they get paid for it. So, a lot of the risk is taken care of by other mechanisms.

And, so, I'm just sort of guessing, I'm looking at the PUC rules, whenever that was written, that may have been the reason behind it. And it's not a bad idea to take out the California companies to get a sense of companies where you don't have those mechanisms in place.

Now, it does, like was pointed out previously, it does matter that, you know, you start taking out companies, sometimes you get such a small sample that you may actually start questioning it. But I haven't, because I haven't provided written testimony in this docket, I haven't really thought through that fully. And I'm just providing the information that I have to the Commission here and the rest of the parties that to -- to explain why we decided that what we have is just and reasonable. So, that's the PUC numbers.

If I go for Dr. Woolridge's approach, one of the approaches was to give 50 percent weightage to DPS growth and 50 percent weightage to EPS growth. In that case, the group with just the merger-impacted companies out, the number is 10.33. If I further take out the California companies, the number is 10.81.

And then it is -- it behooves to also talk about what would have happened if we were using Ms. Ahern's approach. She relied completely on EPS growth rates and expected growth rates. The number would have been, for the group that doesn't include the merger-impacted companies, the number would have been 10.7 percent. And without the -- in addition, without the California companies, the number would have been 11.2 percent.

So, really, when I was looking at the Settlement terms, for me, the approach that we have agreed to, it's -- importantly, it's a very simple approach, but, for me, because I care about forward-looking estimates, and I care about what's going on in the market right now, for me, that is just a template. And I'm really looking at the number that's out there. And so, the number is 9.95 percent. But it is also important to me to look at the change in the capital structure. And so, really, that sort of in some ways drove the discussions to lead us to get this Exhibit 4, okay, where you have the imputed ROE numbers. And if you look at that, the imputed number is "11.51 percent", okay, on top.

Generally, I kind of prefer not moving too far away from the actual capital structure. And if we move -- I tried to make the move to be sort of modest. But, as you see, that number, and what I just described for the water groups, you know, the proxies, we think that it's reasonable to, you know, the range that I just talked about is all the way from 10.2 to 11.2, I think, in the spirit of compromise, I think we just think that that's reasonable.

Of course, going forward, because really the value for us is to be able to sit down and work on some sort of a rule, once the investigative process is -- it proceeds, provided the Commission allows it, we will be looking into how to do it best to try and keep the rules simple. And I will be very careful about also the capital structure mechanics.

So, clearly, the other point that I would like to make is, has been already addressed a little bit, for small water companies, if they're going to go hire a return on equity expert, it's a lot of money. And sometimes, if you think about the administrative efficiency piece, I think it really helps us to all agree that there is a need to look at the PUC rules that's already out there and change it in a way to make things easier going forward. It's going to benefit not only the utility companies, the water utility companies, but it's also going to be helpful to the ratepayers.

So in the -- the bigger picture view for me is that this is, I mean, we don't get everything we want, but, in terms of a compromise, the OCA decided that we can live with it.

Q Thank you, Dr. Chattopadhyay. I just want to make sure I understand what was a relatively long answer that you just gave to my question about whether the result here is just and reasonable.

So, as I understand it, you started your analysis of whether this proposed ROE is just and reasonable by looking at the existing PUC Rule 610.03, correct?

A (Chattopadhyay) That is correct.

Q But you concluded that you don't think that simply applying that rule to this situation was appropriate, so you made certain changes to the assumptions and inputs in that rule?

A (Chattopadhyay) Right. I looked at not only the PUC rule-based approach, but I also looked at the other approaches that I just discussed before.

Q Sure.

A (Chattopadhyay) So, yes. I'm not -- while I did rely on that rule, I took elements of it, and then I applied my own judgment to provide the information that I've shared already.

Q And your judgment is that the rule, the formula in the rule, which relies on Value Line data to conduct a DCF analysis, is too reliant on historical expectations with respect to the growth component in the DCF formula. Would that be a fair statement?

A (Chattopadhyay) The rules actually do not, if I understand your question, the rules do not specifically talk about the historical expectations. That was one of the approaches that Dr. Woolridge used.

I, personally, I've never relied on historical expectations, because the rule actually says "cash flow expectations". So that, to me, it's my interpretation, it's really about the future. It's not about what already has happened.

Q And you developed your own proxy group, and you did that by taking out companies from California and companies that are subject to merger proceedings, essentially, if I'm understanding you correctly, because those -- the regulatory realities in California and the practical realities of being in the midst of a merger sort of distort the investor expectations about how those companies are going to perform?

A (Chattopadhyay) That is correct. And actually, both those scenarios were also looked at by Dr. Woolridge.

Q And so, as a result of all of that, in the exercise of your professional judgment, even though the currently applicable rule would yield a ROE of 9.6, you think that the proposed ROE for this Company of 9.95 is just and reasonable?

A (Chattopadhyay) Yes. Given the current expectations about how the market is, and I, obviously, was also thinking about the imputed ROE in the process.

Q Sure. And so, if I'm understanding, looking at Exhibit 4, and in particular the second page of Exhibit 4, if I understand that exhibit correctly, if you consider the effect of the imputed ROE, that is if you consider the effect of assuming that this Company is considerably less leveraged than it actually is, that that has the effect of bringing the ROE up to the equivalent of 11.48 percent? Am I reading that exhibit correctly?

A (Chattopadhyay) Yes. Essentially, that is the reality.

Q And I guess at the risk of testifying myself, I would say that that strikes me at first glance as an unusually high number for any utility. Why are you comfortable with imputing a capital structure to this Company that makes it much less leveraged than the Company actually is, given that the debt on the Company's books is cheaper than the equity?

A (Chattopadhyay) Generally speaking, when it's -- it's a good thing to have to be less leveraged, because it sort of reduces the risk. This situation, given everything else, for me it was important to look at the imputed ROEs, because essentially what we are doing, we are giving them a higher return on equity than what was in the temporary -- sorry, what was in -- what was in the placeholder. And I wanted to take a look at that.

So, as I indicated previously, personally, I'm okay with hypothetical capital structures. But, in my mind, the move away from the actual capital structure to a hypothetical capital structure, I would have liked it to be more modest. But again, given everything else going on in this docket, and like I said, the calculations that I did with the proxy groups, I am comfortable with going ahead with what's there for this particular docket, 17-118.

Q And the idea here is to encourage the Company to increase the equity investment that the shareholders have in the Company and thereby become less reliant on debt?

A (Chattopadhyay) That is correct.

Q And that's good for consumers, even though that raises the Company's return on equity?

A (Chattopadhyay) I'm using the word "optics", right now it looks like that. But you have to keep in mind that, if you're going to rely a lot more on debt, it creates risks. And that is sort of a long-term view of things. And it's going to sort of a balanced capital structure, around 50/50 or 55/45. That's, in my opinion, desirable.

Q Good for consumers?

A (Chattopadhyay) Yes.

MR. KREIS: I believe that's all the

questions I have for Dr. Chattopadhyay on direct.

CHAIRMAN HONIGBERG: Mr. Levine, do you have any questions for Mr. St. Cyr?

MR. LEVINE: I do.

BY MR. LEVINE:

Q Mr. St. Cyr, did you participate in the negotiations of this Settlement?

A (St. Cyr) Yes, I did.

Q All right. And have you had a chance to review the Settlement document?

A (St. Cyr) Yes, I have.

Q All right. And you're aware of the contents in that document?

A (St. Cyr) Yes.

Q Do you know of any corrections to be made to that document?

A (St. Cyr) No.

Q I'd like to ask you, why are companies like HAWC, having heard Mr. Chattopadhyay's testimony, need a generic ROE approach to address the risks in ROEs for similar situated companies?

A (St. Cyr) There's actually multiple reasons why we find ourselves in this position. It's interesting to hear the talk -- the discussion about "forward-looking" and "future" and "dividends and earnings per share". Those are all concepts that small utilities, water and sewer, you know, really don't give any consideration to. You know, even immediately after a rate increase, its opportunity to earn its rate of return approved in that case is already declining. You know, as in Hampstead's case, you know, this is Docket 17-118. This is a 2016 test year that was filed in 2017. And here we are, all the way into 2018, and by the time this particular settlement, if it gets approved, gets implemented, we'll be into 2019. And so, it's already seeing its expenses increase and its opportunity to earn the rate of return dwindles, you know, with that many months, in fact, in this case, years behind. And that's just the reality sort of coming out of a rate case, when that's really its best opportunity to earn a rate of return.

And then, I would just point out that Hampstead doesn't have the same opportunities as the larger companies have to access markets. You know, we don't have common -- you know, we have one shareholder. We don't have access to common equity markets. We can't raise 100,000 or 500,000 with the issuance of an equity proposal. That's a market that's not available to us. We don't have access to bond markets. You know, we really have a very limited access to debt markets, and that can be more expensive than some of the other markets.

And then, given the size and the effects of the operation, there's just greater risk associated with these companies. We don't have the economy of scales. So, we don't have the ability to absorb any kind of capital additions. You know, we have to replace pumps, we have to address treatment, we replace mains and services. You know, in some cases, any one of those can be a major deal for a small company. We don't have the ability to just absorb that and sort of pay for that internally. We almost are in a position of every major addition to plant we have to go finance this, there just isn't enough cash generated in order to do that internally.

And then, the franchise areas are often, you know, we have an established franchise, but the ability to grow within the franchise is limited. We don't have the ability to add large numbers of customers. So, your ability to sort of grow your customer base is limited.

And then, the smaller companies to a large extent don't have the in-house personnel that some of the larger companies have. And in Hampstead's case, they do have an engineer, they do have an attorney. They do have some in-house expertise. But very often that's not adequate to address whatever the project is or whatever the issue is at the time.

So, there's really multiple reasons why these smaller companies, you know, seem to struggle all the time. And that's what's led, you know, the Company initially proposed an 11.6 percent return, and its witness found that that return was at the low end of the range. And while the companies themselves are not as concerned about how we get there, we're mostly concerned about the end result. And we feel like the end result in this particular case is adequate, is just, and it's reasonable. And that's it.

MR. LEVINE: Thank you. I believe at this time Attorney Ross will be addressing testimony from Ms. Descoteau.

MS. ROSS: Thank you.

BY MS. ROSS:

Q So, Ms. Descoteau, we've introduced you. So, I'm going to jump right into the revenue requirement impacts. Can you tell the Commission what the additional revenue requirement is that's generated by the Settlement Agreement? This is a step. So, we're going to be adding to the revenues approved in the rate case.

A (Descoteau) The additional revenue requirement computed through just the step portion is $40,851, which is a 2.37 percent increase over current rates.

Q And does the Settlement Agreement include schedules showing how the revenue requirements were calculated?

A (Descoteau) Yes, it does. In the Settlement

Agreement, the Settlement schedules begin on Page 10, Bates Page 010. They're Attachment A Schedule 1.

Q And would you just briefly describe the schedules?

A (Descoteau) On Page 10, Attachment A Schedule 1, there's three columns. The first column is the recomputation of the Step II calculation. The middle column shows how it was approved for the permanent rates. And the third column shows the Step II increase. Towards the bottom, there are three blocks of computations.

The first box shows the proposed revenue requirement. And in this box, you can see that the proposed step requirement, with using the new rate of return computed on Schedule 2, those just discussed, the total step increase would be $2,006,193, which is a 16.56 percent increase over the test year revenues.

And in the middle box, you'll see the original revenue requirement, which was approved in the permanent rate increase, and the total was $1,965,342, which was a 14.19 percent.

The third box shows the step increase, which is the differences between the first box and the second box, the step increase versus the original, which shows that the increase will be $40,851, or a 2.37 percent increase. These numbers also include the step -- the original step increase, which is computed on Attachment B Schedule 1, which is on Page -- Bates Page 012.

Q And when you say "original step", you're referring to the step that was approved as part of the permanent rate case?

A (Descoteau) Correct. Attachment B Schedule 1, on Page 12, is set up in a similar fashion, where the first column is the rate calculation based on the new ROE; the second to middle column -- or, the second column shows the original approved in Order 26,165; and the step increase, or Step II, the difference.

Q And can you discuss the second step of the Settlement Agreement?

A (Descoteau) The revenue requirement calculated in this Settlement is a recalculation of the revenue requirement approved in Order 26,165, which was dated July 31st, 2018, which substitutes the ROE of 9.95 percent for the 9.6 percent used in the calculation of the previous revenue requirement. HAWC's adjusted rates will be effective on a service-rendered basis as of January 1st, 2019. There will be no revenue recoupment for this adjustment.

Q And what is the permanent rate impact on the bill of a typical residential customer as a result of this Settlement step increase?

A (Descoteau) For a residential customer using approximately 70 hundred cubic feet of water annually, the average annual bill will increase from $534 to $545, or $11 annually. That's computed on Bates Page 011, which is Attachment B Schedule 3. No. Sorry. Bates Page 014.

On this schedule, towards the middle on the consumption charges, you will see that the consumption rates per hundred cubic feet is $6.11. So, there's no change to the customer rate charges.

Q What was the earlier consumption charge? What is the 6.11 compared to?

A (Descoteau) It is compared to the consumption charge of $5.95 approved in Order 26,165.

MS. ROSS: Thank you. I have nothing further for this witness. I believe you want to follow up with Mr. St. Cyr?

MR. LEVINE: That is correct.

CHAIRMAN HONIGBERG: Mr. Levine.

MR. LEVINE: Thank you.

BY MR. LEVINE:

Q Now, Mr. St. Cyr, you've listened to the testimony of Ms. Descoteau. Do you agree with that testimony?

A (St. Cyr) Yes, I do.

Q Do you have anything to add regarding the customer impacts of the rate?

A (St. Cyr) No.

Q Is the base rate for Hampstead Area Water Company changing by virtue of this second step?

A (St. Cyr) It is not.

Q So, the testimony as she's presented it is accurate as to the consumption charge being the only change?

A (St. Cyr) That is correct.

Q Now, do you support the proposed ROE of 9.95 percent, with the adjustments to the capital structure and the resulting recalculated rates of return?

A (St. Cyr) I do.

Q Okay. Do you find the resulting revenue requirement to be just and reasonable?

A (St. Cyr) Yes.

Q Is there anything else you would like to add?

A (St. Cyr) No.

MR. LEVINE: Thank you.

CHAIRMAN HONIGBERG: Commissioner Bailey.

Actually, before she starts, can someone clarify, does Exhibit 4 contains pages that are effectively replacement pages for certain pages of the attachment?

MS. ROSS: I'm going to ask Mr. Frink to respond to that question.

WITNESS FRINK: Attachment 4 **[**Exhibit 4**?]** is not replacement pages. The Settlement does not show the imputed ROE. This is just to reflect the imputed ROE.

MS. ROSS: So, what the Settlement does -- may I try to explain?

CHAIRMAN HONIGBERG: Yes. Ms. Ross.

MS. ROSS: What the Settlement does is it makes two adjustments, one to the ROE and another to capital structure. And then it flows those two adjustments through schedules and produces a revenue requirement. And because of the way that is shown, you don't actually know what we call what the imputed ROE is. The way you reach that information is to take the resulting rate of return, overall combined rate of return, and do some algebra to back out what your imputed ROE would be, having reached that rate of return that had those two inputs.

And the reason we felt it was important to put that additional information in is that, by changing the capital structure, you essentially are affecting the way the Company makes its money.

CHAIRMAN HONIGBERG: That all makes perfect sense. I'm just trying to match up, or maybe not match up as it turns out, the labeling of the pages on Exhibit 4, which seem to match page labels in the exhibits or the attachments to the Settlement. It would just, if you give me something that says "Attachment A Schedule 1", it's not an attachment to anything, it's its own exhibit, it seems to match up with Attachment A Schedule 1 to the Settlement, even though I know there are some differences. And then you give me something that says "Attachment A Schedule 2", and there's an Attachment A Schedule 2 in the Settlement, and I'm looking to see if they replace. And then you give me an Attachment B Schedule 2, with no Schedule 1, then I think "Oh this is definitely a replacement page, because there's no Schedule 1."

MS. ROSS: Okay.

CHAIRMAN HONIGBERG: But what the testimony is is that this is a stand-alone document, and all of the pages that are attachments to the Settlement are independently relevant, and all the pages in Exhibit 4 have separate, independent significance?

MS. ROSS: They are supplemental. And perhaps it would be useful to the Commission if we took as a record request an attempt to relate the two sets of schedules a little more clearly, so that you would know what elements of the Settlement Agreement schedules are actually contained in 4 and what are supplemental elements.

CHAIRMAN HONIGBERG: I have a feeling Mr. Frink --

MS. ROSS: Maybe he can help --

CHAIRMAN HONIGBERG: -- may be able to do this without having to go back and do anything else.

MS. ROSS: Okay.

WITNESS FRINK: It's really, for Exhibit 4, to calculate the imputed, I simply took the schedules out of the Settlement Agreement and ran the numbers, holding everything constant except the return on equity, to calculate what the imputed was. So, these are the actual schedules that I used to determine the imputed, but it does not replace or they're independent of that, even though, obviously, in this docket, because it's the only change that was made, you're going to wind up with the same rate increases. The impact is entirely related to this imputed ROE.

But that explains these headings. Those are the exact schedules I pulled off the Settlement to calculate what the imputed ROE is.

CHAIRMAN HONIGBERG: Thank you, Mr. Frink. Commissioner Bailey.

BY CMSR. BAILEY:

Q So, Attachment A Schedule 1 is the same in Exhibit 4 and Exhibit 3, with the exception of the column heading in Exhibit 4 that says "ROE Settlement (imputed 11.51 percent)"?

A (Frink) That is correct.

Q Okay. About that 11.51 percent, on the next page in Exhibit 4, where you compute the imputed ROE, the answer at the bottom of the page seems to be "11.48 percent"?

A (Frink) Correct. So, what you have here is, there was a permanent rate increase that uses a capital structure with debt. So, look at Attachment A Schedule 2, you'll see a long-term debt amount of "$4,190,886". And you'll see the cost rate is "3.45 percent". When you go to the step adjustment, you'll see that the long-term debt used for the step adjustment was $50,000 higher, and that the cost rate is "3.41". And that's explained in the Settlement, Exhibit 3, the footnote on Page 5, that there was an acquisition made in which they funded it with $50,000 of debt at zero percent interest. So, between when the permanent rate was done and the step adjustment was implemented, they had added $50,000 to debt at no cost, and that produced a lower cost rate for debt.

And so, when you combine the -- you'll see on that schedule, Attachment B Schedule 2, if you go down to the second to the last line, in the bolded box, you'll see "11.56 percent". That is an imputed rate for the step adjustment. The imputed rate for the permanent rate adjustment, on the page before, is "11.48". The weighted average is "11.51".

Q So, what's the difference between approving an 11.51 percent return on equity and approving an 11.51 percent imputed return on equity?

A (Frink) Say that again.

Q I'm asking you, are you asking us to

effectively approve a return on equity of 11.51 percent?

A (Frink) Yes. That's the effective ROE.

Q Yes. And we're going to apply it to their existing capital structure, and hope that the shareholder likes that return on equity and invests more money in the Company?

A (Frink) We expect that they will earn more and have retained earnings to offset the negative retained earnings, and that that will increase the equity portion. Because right now, if you -- again, you're going to Attachment -- Exhibit 4, Attachment A Schedule 2, you can see a negative 800,000. That should be going down. And if you were to eliminate that, then you're probably not too far off the 45 percent capital structure that is being imputed. That the hypothetical capital structure leads to the imputed ROE.

Q So, if their capital structure actually changes as a result of this, and the shareholder invests more equity in the Company, and the return on equity is 11.51 percent, could that cause them to overearn?

A (Frink) No, that wouldn't.

Q Earn more than you expected?

A (Frink) No. The capital structure and the ROE, if you -- okay. So, we're approving a 9.95 ROE. So, when we do our calculated return, you're right, approving an 11.51 effective return and a 9.95 actual ROE for calculating a return does present that risk. Though, I would say it's a very small risk, given this, when you say each year you'll see an updated -- when we do our calculation of return on equity, you look at the investments and expenses and everything else that happened during the year, which, as Mr. St. Cyr has already alluded to, continues to climb and there's earnings attrition. So, I'm sure even this rate base from the permanent rate in the step adjustment has gone up quite a bit since this filing.

But that is a -- it's a legitimate concern. Everything else being equal, that would result in --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (Frink) Everything else being equal, approving a 9.95 return on equity, and allowing an effective rate of 11.51, would produce an overearning.

BY CMSR. BAILEY:

Q Mr. St. Cyr, what do you expect the Company to do as a result of this imputed return on equity?

A (St. Cyr) I certainly expect it to have a better opportunity to earn its rate of return. I see very little, if any, opportunity to overearn.

Q How are they going to earn their rate of return? Do you think they're going to -- well, how are they going to earn their rate of return? What are they going to do to get that?

A (St. Cyr) So, with every addition to plant that eats into the rate of return, with every increase in expense that further deteriorate the rate of return. As I said earlier, this is a 2016 test year, which was adjusted for known and measurable changes in 2017, but here we are in 2018, and this particular rate is going to be implemented in 2019. We know there are annual increases and payroll expenses, for example. There are increases in property tax expenses. There are just -- the increases in expenses immediately lessen the opportunity for the companies to earn their rate of return.

Q So, part of your answer was not "they're going to invest more money in the Company"?

A (St. Cyr) So, this particular shareholder has shown a willingness to do that. I believe the most recent was 400,000 in 2017, and I think in the test year itself it was 500,000.

You know, part of the risk and part of the reason why we're talking about a rate of return is that's really the only opportunity that the Company has to get funds outside of, you know, sort of limited debt markets. And the shareholder has shown a willingness and an ability to do that. You know, the reality is is we don't really know whether that will always exist in every period going forward. That's a huge ask for a single shareholder for a small water company, to continually put in additional equity every time, you know, there's a need for capital.

Q So, imputing an 11.5 percent return on equity doesn't really give the shareholder an incentive to invest more?

A (St. Cyr) Well, I would say it's certainly more of an incentive than 9.6 or some other lesser percent. But that also implies that the shareholder is receiving some kind of return. I mean, I don't think Hampstead has ever taken a dividend. I don't think that the shareholder has ever taken a return. So, the shareholder continues to put money in, primarily to meet capital needs, and yet has never really received either a dividend or a return on their investment.

Q When we look at the footnote in the Settlement on Page 4, Footnote 2, it says "45 percent debt and 55 percent equity". Is that a mistake? Do you see where I'm talking about?

A (Frink) That is a mistake. That should be "55 percent debt and 45 percent equity".

Q Okay. Can we talk a little bit about the RRA analysis? You said that you looked at the first half -- well, the Settlement says "the first half", and I think I understood from you, Mr. Frink, that that means the "first two

quarters of 2018"? Is that what you looked at?
A (Frink) That's correct.
Q So, you looked at all the ROEs for water companies that were authorized in the first half of 2018?
A (Frink) And gas utilities.
Q And you took the median of the gas utilities for that period?
A (Frink) Yes.
Q Okay. By doing that, are we relying on other commissions' judgment about ROE and is that -- is that good enough?
A (Frink) Well, yes, you are. And the problem we have now with generic returns, one, it's not workable, we don't even have some of the data that was required to do that calculation. Staff is supposed to make that calculation annually. And we don't subscribe to Value Line anymore, so we couldn't even do it without subscribing to Value Line or finding some other source.
But, more importantly, there just aren't very many water utilities. And as part of our consultant's review and his interpretation of a

generic return, he raised a lot of concerns regarding problems with the rule as it exists. And with the water industry as a whole, because there have been so many acquisitions, there's so few companies left that fit the requirements of the generic rule. So, that's why we broaden it to include a much broader group.

The RRA analysis gives you a number, I don't recall exactly, it's in a data response, the Company -- the Staff responded to a Company's discovery request. And there may have been 16 water companies within those two quarters, and I forget how many gas companies, certainly more gas companies. But it gives you a broad base that you assume each utility -- each commission is reviewing, doing a similar review as you do when you do your return on equity, and that it will produce a reasonable return. Again, our consultant, using the generic return, calculated a return and reviewed how that compared to doing this actually works out. He looked at what they do in Florida for a generic return, what they do in Connecticut, and Massachusetts has a generic return for small water utilities. He reviewed all of those. And this one is very similar to what they do in Connecticut. And it's one he thought is -- in Connecticut, they don't actually use the RRA. They use the returns from their largest water utilities.

Here, our last litigated return was 2013, I think, or a 2012 docket for Aquarion. So, there's not really -- that's very dated, and they don't come in that often. And to tie all the other utilities to that return doesn't appear reasonable.

This methodology gives you more up-to-date analysis done by other commissions. And that's, like I say, it's very simply -- it's a very simple calculation. Take the median, take the average that's provided in the quarterly report, and you've got it. And we can put that out there every quarter up on our website, it's really not very difficult.

And there's always the opportunity, under the existing rule, you can contest the results of that. So, if the OCA or Staff or the Company doesn't like what that produces for a return, then they don't have to use it.

Q Okay. What will the rate of return that we're authorizing be reflected in the RRA report? Will it be 11.5 or will it be 9.95?

A (Frink) The way the Settlement is written, you're approving an ROE of 9.95. I would say that the -- just as a note, Massachusetts approved an ROE for Aquarion on October 31st, 2018, so just a week ago, and they're ROE was 10.5. So, as a matter of reference, that would bring up the average that we're at now. But just for a ballpark figure, that's where the number is coming down. If you approve a 9.95, then that would lower the overall RRA average for water utilities, assuming that that's the way that they would reflect it, and I assume it's how you write the order that would determine that.

Q Dr. Chattopadhyay, do you have anything you want to add about this?

A (Chattopadhyay) As Mr. Steve Frink was talking about this, I mean, this is simply a template that is being used for this rate case. That doesn't mean that we, going forward, that this is going to be exactly this way. So, for example, if there are issues with -- when you come out with an average, we shouldn't really rely on what New Hampshire had done. If that's an issue, then we can deal with it and, you know, not consider that. So, there are ways to also adjust the RRA group that we will be taking a look at, if that's the way we go to.

I, personally, I kind of prefer some other approaches. But, at this point, this is not ripe for discussion. I mean, I'm just -- I will leave it for the next. Yes.

Q Okay. Mr. St. Cyr, you had something to add?

A (St. Cyr) So, I just wanted to say I generally agree with what Mr. Frink says. Although, what you're pointing out is a concern that Hampstead and the other companies have, in that it doesn't truly reflect the risk associated with smaller companies. That these are, and I don't have an in-depth knowledge of the calculations, but I would assume that many of these are sort of settled ROEs, or, to the extent that they're litigated, they may be less than what, you know, a utility had sought. So that the

Company has a concern that these are actually low, probably low, rather than -- certainly not high. Whether they are -- it adequately reflects an average, but whether the average is adequate for Hampstead or the other small companies in New Hampshire, that's a whole different discussion.

CMSR. BAILEY: Okay. Thank you. That's all I have.

CHAIRMAN HONIGBERG: Commissioner Giaimo.

CMSR. GIAIMO: Good morning.

WITNESS ST. CYR: Good morning.

CMSR. GIAIMO: That wasn't very enthusiastic. Okay. I won't take it personally.

BY CMSR. GIAIMO:

Q So, I understand how we got to 9.95. But what I'd like to do is dig in a little bit on the 50 basis point adder. On Bates 004, the narrative says "50 basis points are added to the base percentage in recognition of the rate case expense savings to customers derived by the Company not litigating the ROE."

I want to make sure I understand that right. What is that 50 basis points based on? Is it a guesstimate? Is it a cost of the expert witnesses? What is it?

A (Frink) No. It's a guesstimate. Typically, it's not unusual to see cost of capital witnesses for the utilities and the Staff that range from 100 to $200,000. So, that's going to have a different -- if you were to convert that into an expense and put a basis number to it, it's going to be different for every utility, depending on the size of the utility and their revenues. So, we didn't actually determine that, you know, these are the expenses that -- for this particular company, and so that translates to 50 basis points.

Plus, I would point out that the Company is recovering -- the Settlement provides for the Company recovery of their share of the cost of capital witness in these dockets. The thought -- the savings in this particular docket is more from cutting it off at that point. So, we didn't bring our witness. It wasn't -- the Company hasn't put their witness on. Those are expenses that are not being incurred in this particular docket.

But the 50 is really just an estimate as to and an incentive to avoid rate case expenses that we haven't really translated into an exact expense number.

Q Okay. So, the Company will still get its rate case expenses for the expert that it's already -- the expert work already done, as well as the filing cost and the cost of the attorneys in the room, consistent with Paragraph E of the Settlement?

A (Frink) Related to this docket, yes.

Q Okay.

A (Frink) I will say that the cost of capital witness was -- the cost of the original testimony was split by three utilities. So, whatever that HAWC's share is, that will be what will be reflected in there. It will be allotted and we'll make a recommendation on that.

Q Okay. So, going forward, there will be a rulemaking process. And as part of that process, will the Company be hiring, either as itself or joining with the other small water companies, will they hire a consultant to enlighten the Commission with respect to the rulemaking?

A (Frink) I would hope not. One of the reasons that we --

Q Okay, Mr. Frink. Hold on a second.

A (Frink) Oh, okay. Sorry. I thought it was addressed to me.

Q I'm addressing the panel now. But thank you, I agree, I hope not, too. But now to Mr. St. Cyr.

A (St. Cyr) So, I, too, would say I hope not. We have testimony that we think is still relevant. You know, the data probably needs to be updated. I would actually expect at the technical session at the beginning of that docket, there will be some discussion about how best to go forward, and whether there is a need for, you know, external ROE witnesses to participate. But, if it could be avoided, the Companies would certainly prefer that.

A (Frink) I would also suggest that, since it isn't a rate case, those costs wouldn't be recoverable. And that, if the company sought to defer them and seek them in a future rate case, that would be their -- have the right to do that, but --

Q That's how they would try to -- that would be the best way to recover those costs?

A (Frink) Yes.

Q Okay. I understand. Mr. St. Cyr, you talked a little bit about or you confirmed to Ms. Descoteau's estimates with respect to the volumetric rates. And I know you've worked with other companies, other small water companies.

How does HAWC's proposed volumetric rate compare on a ccf basis with other small water companies in the state and as well as in the region?

A (St. Cyr) So, sometimes it's hard to compare. To HAWC's credit, they have, as a company, elected to keep the customer charge on the low side. So, as a result of keeping the customer charge on the low side, the consumption charge tends to be on the high side. I don't know as that's out of the acceptable range. But, even to the extent that it's high, it would be high because they have kept the customer charges low.

Q So, the total bill you would say is consistent within the region and within the state?

A (St. Cyr) Yes. I would say you're looking at a $545 annual bill, which is probably in the -- maybe on the low side of the middle of the range. I'm aware of some that are up to 800, and, you know, there are certainly a few that are in the probably three or $400 range.

Q Okay. Thank you for that. Just one last question going back to the rulemaking process. What does the Company and what do the panelists foresee as a potential timeline for that rulemaking process? And when potentially we can see a future ROE indication?

A (St. Cyr) So, as part of this Agreement, the Public Utilities Commission is supposed to issue an order of notice 45 days after an order in this case. And I would expect that, you know, with that there would be the establishment of a prehearing conference and a technical session. And certainly, from the

Company's perspective, you know, we initially filed the original case almost a year ago at this point.

Q Yes.

A (St. Cyr) So, we're not interested in it going on for a very long time. And we would hope that it could be started and concluded within 2019 certainly.

Q 2019 would be an expectation. So, the rulemaking process, in general, can generally take between six to nine months as a rule for a rulemaking. So, you're looking more towards the end of 2019?

A (St. Cyr) That's correct.

CMSR. GIAIMO: Thank you. Those are my questions.

CHAIRMAN HONIGBERG: That's a very realistic view of the New Hampshire rulemaking process.

Mr. Frink, I think my questions are mostly for you, although others may have some perspective.

BY CHAIRMAN HONIGBERG:

Q With respect to the rulemaking, do you have a sense of how many other companies will be affected by this? And also, will it include sewer companies?

A (Frink) I think you would know more, right?

Q Mr. St. Cyr.

A (St. Cyr) I would say, yes, it will include sewer companies. And it should include --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (St. Cyr) It should include all water and sewer, you know, with the exception of maybe Pennichuck and Aquarion. I think everybody else, from my view, is in a different category than those two companies.

BY CHAIRMAN HONIGBERG:

Q Okay. Now, Mr. Frink, you testified earlier about the negative retained earnings and its effect on the capital structure. Can you circle back to that explanation, and either do it again or talk specifically about what it means to have negative retained earnings?

A (Frink) So, there's a paid in capital, and essentially, there's a -- when you look at the common equity component, so I'm looking at

Attachment A Schedule 2, this is on Exhibit 4. And you can see the "Common Stock", you see the "Additional Paid in Capital", and you see the "Retained Earnings". What the retained earnings -- having a "negative retained earnings" means that they have been -- they have been losing money. So, that additional paid in capital wasn't adequate. And hopefully, with the rate increases, they will start actually retaining earnings.

Q Well, you said the "paid in capital wasn't adequate". Isn't it that the earnings aren't adequate?

A (Frink) That's correct. The earnings aren't adequate.

Q And so, if they are able to earn more money as a result of this rate increase, I think what you testified earlier is that you would expect to see the negative retained earnings number get smaller?

A (Frink) That's correct.

Q And the effect of that is to change the effective capital structure of the Company, is it not?

A (Frink) It would.

Q So, that's why it makes sense, in the context that we're talking about this, to approve it as a 9.95, even though with this Company's current effective structure, it ends up being higher?

A (Frink) That's correct.

CHAIRMAN HONIGBERG: All right. I think that's all I had.

Do any of the counsel have further questions for their witnesses?

[No verbal response.]

CHAIRMAN HONIGBERG: Seeing none. I think you all can stay where you are.

There are no other witnesses, correct?

MS. ROSS: That's correct.

MR. LEVINE: Correct.

CHAIRMAN HONIGBERG: All right. We will strike ID on Exhibits 3 and 4.

I want to go off the record for a moment before we wrap up.

[Off-the-record discussion ensued.]

CHAIRMAN HONIGBERG: We can go back

on the record.

So, I think there's nothing else but to allow the parties to sum up. Mr. Kreis, why don't you start us off.

MR. KREIS: Thank you, Mr. Chairman. Based on the testimony that you have heard from Dr. Chattopadhyay, we, as a signatory to this Settlement Agreement that is before you, believe that the Step II adjustment, which moves the ROE upward and imputes a different capital structure to this Company, results in just and reasonable rates. And we therefore urge the Commission to approve it.

CHAIRMAN HONIGBERG: Ms. Ross.

MS. ROSS: Yes. Staff appreciates the efforts of all of the parties in this docket in coming to the Settlement. We believe that the overall rate of return of 6.35 percent for this Company is reasonable, and that the $40,000 roughly increase in their annual revenues is also a reasonable rate for them. And we do believe that the Company's capital structure will improve, and that the retained earnings will be paid down. And we recommend that the Commission approve the Settlement.

CHAIRMAN HONIGBERG: Mr. Levine.

MR. LEVINE: Thank you, Commissioners. The Company also concurs with Attorney Kreis and Attorney Ross have said. We feel this is a great step in getting a reasonable rate of return for the Company. And we encourage the Commissioners to consider the Settlement in a favorable light.

CHAIRMAN HONIGBERG: All right. Thank you all.

With that, we will adjourn the hearing, take the matter under advisement, and issue an order as quickly as we can.

(Whereupon the hearing was adjourned at 10:51 a.m.)