

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 14, 2006 - 9:01 a.m.
Concord, New Hampshire

PUBLIC UTILITIES COMMISSION

RE: DW 06-094
AQUARION WATER COMPANY OF NEW HAMPSHIRE:
Verified Petition for Approval of the
Acquisition of Aquarion Company by
Macquarie Utilities, Inc.
(Prehearing conference)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Diane Bateman, Clerk

APPEARANCES: Reptg. Aquarion Water Co. of New Hampshire:
Steven V. Camerino, Esq.

Reptg. the Town of Hampton:
Mark Gearreald, Esq.

Reptg. the Town of North Hampton Water
Commission:
Henry Fuller, Chairman of Water Commission

Reptg. Residential Ratepayers:
Rorie Hollenberg, Esq.
Office of Consumer Advocate

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

Court Reporter: Steven E. Patnaude, CCR

ORIGINAL

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

I N D E X

PAGE NO.

STATEMENTS OF PRELIMINARY POSITION BY:

Mr. Camerino	7
Mr. Gearreald	10
Mr. Fuller	11
Mr. Traum	11
Ms. Thunberg	12

1 **CHAIRMAN GETZ:** If you could just take
2 care of that after the prehearing conference, that would
3 be sufficient. We'll begin with appearances by the
4 parties that are here, and then we'll hear any objections
5 to the Petitions to Intervene, and then hear the
6 statements of the parties.

7 So, we'll start with you, Mr. Camerino.

8 **MR. CAMERINO:** Thank you, Mr. Chairman,
9 and good morning, Commissioners. My name is Steven
10 Camerino, from McLane, Graf, Raulerson & Middleton, and I
11 represent Aquarion Water Company of New Hampshire and
12 Macquarie Utilities, Inc. And, with me this morning at
13 counsel's table, beginning at my right, Rob Kupchak,
14 Associate Director of Macquarie Securities (USA), Inc;
15 then, Don Morrissey, from Aquarion Company, Vice President
16 of Finance and Corporate Secretary; Linda Discepolo,
17 Director of Rates and Regulation with Aquarion Company;
18 and Larry Bingaman, Senior Vice President for Operations
19 in Massachusetts and New Hampshire.

20 **CHAIRMAN GETZ:** Good morning.

21 **CMSR. MORRISON:** Good morning.

22 **CMSR. BELOW:** Good morning.

23 **MR. BINGAMAN:** Good morning.

24 **CHAIRMAN GETZ:** Mr. Gearreald, we're

1 taking appearances.

2 **MR. GEARREALD:** Thank you. Mark
3 Gearreald, for the Town of Hampton. Thank you.

4 **CHAIRMAN GETZ:** Good morning.

5 **CMSR. MORRISON:** Good morning.

6 **CMSR. BELOW:** Good morning.

7 **MR. FULLER:** Henry Fuller, from the Town
8 -- Water Commissioners from the Town of North Hampton.

9 **CHAIRMAN GETZ:** Good morning.

10 **CMSR. MORRISON:** Good morning.

11 **CMSR. BELOW:** Good morning.

12 **MS. HOLLENBERG:** Good morning. Rorie
13 Hollenberg and Kenneth Traum, here for the Office of
14 Consumer Advocate.

15 **CHAIRMAN GETZ:** Good morning.

16 **CMSR. MORRISON:** Good morning.

17 **CMSR. BELOW:** Good morning.

18 **MS. THUNBERG:** Good morning,
19 Commissioners. Marcia Thunberg, on behalf of the Staff.
20 And, present today is Mark Naylor, Jim Lenihan, Doug
21 Brogan, and Jim Cunningham. Thank you.

22 **CHAIRMAN GETZ:** Good morning.

23 **CMSR. MORRISON:** Good morning.

24 **CMSR. BELOW:** Good morning.

1 **CHAIRMAN GETZ:** Are there any objections
2 to the Petitions to Intervene?

3 **MR. CAMERINO:** Just one note, Mr.
4 Chairman. I don't believe we received the petition from
5 the Town of -- from the North Hampton Water Commission.
6 We did receive one from the Town of Hampton. Assuming
7 that the Water Commission is seeking to intervene, we
8 don't have an objection, but we would appreciate receiving
9 a copy.

10 **CHAIRMAN GETZ:** Thank you. Mr. Fuller,
11 actually, I'd like to follow up on to make sure I
12 understand the request. Whether you're seeking to
13 intervene on behalf of the North Hampton Water Commission,
14 as has been the case in other cases, but it also suggests,
15 though, that you're trying to -- basically making a
16 petition on behalf of the town itself. Can you clarify
17 that?

18 **MR. FULLER:** We have sent paperwork in
19 to Debby Howells (Howland?), and eight copies. We already
20 filed with her. So, -- And, our statement is that we're
21 intervening.

22 **CHAIRMAN GETZ:** Okay. But I think the
23 letter indicates that I guess something's being forwarded
24 to the Board of Selectmen and perhaps the Town itself may

1 intervene. Is that what you're --

2 **MR. FULLER:** No, that's just a cc will
3 be sent to the Town, so they know what's going on.

4 **CHAIRMAN GETZ:** Okay. So, this would be
5 -- your intervention here would be in the nature that it
6 has been in other cases, where you're seeking to intervene
7 as the Water Commission?

8 **MR. FULLER:** Yes.

9 **CHAIRMAN GETZ:** Okay. Well, hearing no
10 objections, and recognizing that the Town of Hampton and
11 the Town of North Hampton Water Commission have indicated
12 rights, duties, privileges or other interests that would
13 be affected by this proceeding, we grant the motions to
14 intervene.

15 So, at this time, we'll turn to
16 statements of positions by the parties. And,
17 Mr. Camerino.

18 **MR. CAMERINO:** Thank you, Mr. Chairman.
19 As the petition indicates, Macquarie Utilities plans to
20 acquire Aquarion Company from Kelda, PLC. Aquarion
21 Company has utility operations in New Hampshire,
22 Massachusetts, Connecticut and New York. It also has a
23 water service line protection business. Macquarie Bank,
24 Limited, is a company that's listed on the Australian

1 Stock Exchange. It owns, develops and manages investments
2 in infrastructure businesses that are financially stable,
3 with -- and predictable over the long term. It has
4 substantial experience in the utility industry. In the
5 gas distribution industry, it has nearly 4 million
6 households that it serves. In the water utility industry,
7 it serves nearly 2 million households. And, in electric
8 distribution, it serves over a half million households.

9 The change of ownership from Kelda to
10 Macquarie will not adversely affect the rates, service or
11 operations of Aquarion New Hampshire, and it will result
12 in no net harm to the public. And, in fact, we believe
13 there are some benefits that will result. And, therefore,
14 the Commission should approve the proposed transaction.

15 In particular, the Company has indicated
16 in its filing that there's no intention to reduce the size
17 of the workforce or make other changes at the operating
18 company level. There is no intention to change the rates
19 or service being provided as a result of the acquisition.
20 There's no plan to change the corporate structure of
21 Aquarion at this time. The philosophy of Macquarie is
22 similar to that of Kelda, in terms of efficiency of
23 operation and seeking cost savings. And, Macquarie and
24 Aquarion believe that Macquarie's ownership will provide

1 excellent access to both debt and equity markets, which
2 will create opportunities for a more efficient capital
3 structure.

4 In essence, as the petition indicates,
5 the operations and service of Aquarion New Hampshire will
6 remain the same after the acquisition, and, really, this
7 is just a change at the highest ownership level of the
8 company. The Companies are aware of the rather tight time
9 frame that is laid out in RSA 369, with regard to merger
10 proceedings, and are prepared to be flexible in working
11 with the Staff and other parties to work out a schedule
12 that meets their needs. We've indicated that the
13 transaction is planned to close in the fourth quarter of
14 this year. And, we understand that the discovery process
15 that the Staff and parties need to go through may require
16 that something more than the 60 days contemplated by the
17 statute would be helpful. And, subject to the
18 understanding that we would work on a fairly tight time
19 frame, I think we don't need to be bound by that statutory
20 time period.

21 With that said, we're looking forward to
22 beginning the discovery process at the technical session
23 and working with the Staff and the Consumer Advocate and
24 the parties to reach a prompt resolution. Thank you.

1 **CHAIRMAN GETZ:** Thank you.

2 Mr. Gearreald.

3 **MR. GEARREALD:** Thank you, Mr. Chairman.

4 The Town of Hampton is, of course, the largest of those
5 communities that is served by Aquarion. And, of course,
6 there's much interest to us as to who acquires Aquarion
7 and what their intentions are. It's been represented in,
8 not only in the petition here, but in an earlier e-mail
9 attached to our statement of position, that this
10 acquisition will be a benefit to the customers of
11 Aquarion. We'd very much like to find out what those
12 benefits might be.

13 Of course, there is also, as pointed out
14 in our statement of position, an ongoing rate issue that
15 is, once the Commission rules upon the rate increase being
16 sought, there is nevertheless a step increase that is
17 likely to come forward before the Commission during the
18 period that Macquarie is simultaneously seeking to acquire
19 Aquarion. So, we're wondering how the benefits that are
20 to come from Macquarie's acquisition may bear upon that
21 step increase.

22 Also, there are a number of Macquarie
23 entities here involved that are mentioned in the petition,
24 and I think it would be important to find out exactly what

1 those entities are and how they interrelate. The
2 Macquarie Infrastructure Partners, the Aquarion
3 transaction is their first investment, as is mentioned in
4 Paragraph 3 of the petition. So, it's important to flesh
5 out how that works. And, we look forward to working with
6 the Commission and the Consumer Advocate's office. I note
7 that the Staff has already sent out some data requests
8 that tend to bear upon the issues that are of interest to
9 us. Thank you.

10 **CHAIRMAN GETZ:** Thank you. Mr. Fuller.

11 **MR. FULLER:** Yes. Our main thing is the
12 quality and the service of this new deal that they -- the
13 new buyers are coming into. Since the last round we went,
14 for the last four years, the service in the community, the
15 quality of the water and the quality of the service,
16 that's been going on in our town already. We're concerned
17 what's going to be happening with these new buyers. And,
18 we'll find out when -- through the discovery later on.

19 **CHAIRMAN GETZ:** Thank you.

20 Ms. Hollenberg.

21 **MS. HOLLENBERG:** Thank you. Kenneth
22 Traum will actually be giving our statement.

23 **MR. TRAUM:** Thank you, Commissioners.
24 Recognizing that the standard for this, as I understand

1 it, is the "no net harm" standard, we'd be looking at what
2 kind of guarantees Macquarie is willing to put in writing,
3 guaranteeing at least today's service levels will not
4 deteriorate, that the size of the capital budget will not
5 diminish, that the level of conservation will not
6 diminish. Miscellaneous things like will hydrant
7 maintenance continue at at least the same level? Will
8 there be at least the same level of consumer input and
9 consumer advisory council? Will local management have at
10 least the same amount of ability as they do today to make
11 financial decisions? We've heard the Company say that
12 "the workforce in New Hampshire will not be reduced".
13 Will there be some kind of a limitation, will the Company
14 agree to some kind of limitation on dividends, to at least
15 maintain the capital structure as it is today, as opposed
16 to potentially harming the Company by making it more
17 risky?

18 Those are the kind of areas that we
19 would like to explore in this docket. Thank you.

20 **CHAIRMAN GETZ:** Thank you.

21 Ms. Thunberg.

22 **MS. THUNBERG:** Thank you, Mr. Chairman.
23 The Staff would like to start with a bit of history with
24 respect to Aquarion. And, remind the Commission and the

1 parties here today that, back on March 1st in 2002, the
2 Commission, in Order 23,924, approved the change of
3 control of Hampton Water Works from American Water Works
4 to Aquarion. And, in that docket, Staff entered into a
5 stipulation, which was approved by the Commission, and
6 that stipulation contained a number of provisions intended
7 to protect customer service, maintain and enhance local
8 relationships, and integrate Aquarion's local operations
9 and its management structure into its Connecticut offices.
10 The signatories fully supported the stipulation at
11 hearing. And, again, the Commission approved that.

12 And, in Aquarion's most recent rate
13 case, Staff concluded that Aquarion has lived up to that
14 stipulation. The Company is providing good water service
15 in its franchise area. In its recent rate case, Staff and
16 the parties are proposing only an 18.6 percent overall
17 rate increase. And, in this day and age, with capital
18 improvements, a 3 percent, or, actually, this amounts to
19 just a 3 percent increase annually. And, with the capital
20 improvements going on in water companies these days, that
21 is almost unheard of.

22 Staff, in particular, would like to
23 point out that, in the rate case, Staff determined that
24 Aquarion's operations and maintenance expenses had

1 actually decreased. So, in total, Staff's position is
2 that Aquarion has been doing a great job with this company
3 thus far. And, with that history, and knowing that this
4 docket is a proposed change of control at the parent
5 level, Staff will be revisiting the issues that were in
6 that stipulation, such as how local control will be
7 maintained, how field operations will continue, how
8 customer service may change under the new parent
9 ownership. Staff will be working with Aquarion and
10 Macquarie and other parties in this docket to answer those
11 questions.

12 Aquarion has also proposed in this
13 docket to establish a regulatory asset or liability on its
14 books, to recognize previously unrecognized gains and
15 losses relating to obligations for pensions and post
16 benefits -- or post retirement benefits other than
17 pensions. Staff will be exploring this issue fully, and
18 will likely ask the Company to supplement the information
19 in its petition. When Staff has this information, Staff
20 will propose a recommendation to the Commission.

21 But Staff will be working with the
22 parties and the Company in the tech session following this
23 prehearing to develop a proposed procedural schedule that
24 meets the time needs of Macquarie and Aquarion, but also

1 the Staff's and the other parties' needs to assure that
2 there is no net harm in this transaction. Thank you.

3 **CHAIRMAN GETZ:** Thank you. Is there
4 anything else that the parties wish to bring up this
5 morning?

6 (No verbal response)

7 **CHAIRMAN GETZ:** Okay. Hearing nothing,
8 then we will close this prehearing conference and await a
9 recommendation on procedure from the parties. Thank you
10 very much.

11 (Whereupon the prehearing conference
12 ended at 9:17 a.m. and the Staff and the
13 Parties convened a technical session
14 thereafter.)

15

16

17

18

19

20

21

22

23

24