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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 29, 2008 - 10:07 a.m.  
Concord, New Hampshire

NHPUC NOV13'08 PM 1:43

RE: DW 08-086  
EASTMAN SEWER COMPANY:  
Notice of Intent to file a Petition for  
Financing and Rate Schedules.  
(Prehearing conference)

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Eastman Sewer Company:  
Stephen P. St. Cyr

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

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

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

1  
2 CHAIRMAN GETZ: Okay. Good morning,  
3 everyone. We'll open the prehearing conference in docket  
4 DW 08-086. On August 18, 2008, Eastman Sewer Company  
5 filed schedules, proposed changes, and prefiled testimony  
6 in support of a proposed financing and rate increase.  
7 Eastman seeks approval of financing in the amount of  
8 \$238,580, an increase in its annual capital reserve amount  
9 from \$10,008 to \$43,249, and an increase in its annual  
10 sewer revenues that would result in a temporary rate  
11 increase of 18.74 percent and a permanent rate increase of  
12 46.28 percent. We issued an order suspending the tariffs  
13 on September 18, 2008 and scheduling the prehearing  
14 conference for this morning.

15 And, I just want to, one preliminary  
16 administrative matter, has the affidavit of publication  
17 been filed?

18 MR. ST. CYR: Actually, no affidavit was  
19 required. But the Company did, in fact, mail to the Town  
20 of Grantham the PUC order on September 23rd, 2008, and it  
21 mailed to its customers via First-Class Mail a summary of  
22 the order on October 6, 2008.

23 CHAIRMAN GETZ: Okay. Thank you. Let's  
24 take appearances please.

1 MR. ST. CYR: Good morning. My name is  
2 Stephen P. St. Cyr, and the Company is well represented.  
3 We have Brian Harding, John Mueller, Joe Damour, Charlie  
4 Hirshberg, Gayle Burns, and Myron Cummings, representing  
5 Eastman Sewer Company.

6 CHAIRMAN GETZ: Good morning.

7 CMSR. MORRISON: Good morning.

8 CMSR. BELOW: Good morning.

9 MS. THUNBERG: Good morning,  
10 Commissioners. My name is Marcia Thunberg. And, with me  
11 today is Mark Naylor, who is the Director of the Gas and  
12 Water Division; Doug Brogan, who is our engineer; and Jim  
13 Lenihan, who is our rate design specialist; and Jayson  
14 LaFlamme, who is our revenue requirement specialist.  
15 Thank you.

16 CHAIRMAN GETZ: Thank you. Is there  
17 anything we need to address before we hear an opportunity  
18 for statement of positions?

19 MR. ST. CYR: The only matter that the  
20 Company would like to bring before the Commissioners is  
21 that today the Company's filing revised exhibits to its  
22 filing. The revisions are due to an increase in one of  
23 its projects that's being proposed as part of this  
24 proceeding. That would increase both the amounts funded

1 and the amounts that the Company is seeking in terms of  
2 rates. And, I'll touch upon that briefly in my  
3 preliminary statement.

4 CHAIRMAN GETZ: Okay.

5 MS. THUNBERG: Nothing.

6 CHAIRMAN GETZ: Then, Mr. St. Cyr.

7 MR. ST. CYR: Yes. Eastman Sewer  
8 Company was purchased by Eastman Community Association in  
9 2001. The Company is governed by a five member board,  
10 three of whom are members of the sewer system and two of  
11 whom are members of the Association board. Currently, the  
12 Company serves 535 customers. The sewer system is  
13 operated and maintained by Water System Operators of  
14 Henniker, New Hampshire. Eastman has no employees. And,  
15 all the work is performed by contractors or the  
16 Association staff.

17 Eastman's primary charge is to maintain  
18 the integrity and reliability of the sewer system. The  
19 Company is beginning to experience more mechanical  
20 problems, due in large part to the age of the system and  
21 its components. Numerous repairs and replacements have  
22 been done to the system over the past several years,  
23 however more significant upgrades are needed. In the Fall  
24 of 2007, the Company contracted with CLD Engineering

1 Consulting to complete an analysis of the system and to  
2 recommend capital improvements.

3 In March 2008, CLD issued a report  
4 showing over \$500,000 of needed capital improvements over  
5 the next several years. The Company has reached a point  
6 where a rate increase is essential for the Company to  
7 undertake the recommended capital replacement program and  
8 to manage its increase in operating costs. In addition,  
9 the Company is now required to meet certain standards that  
10 did not exist 30 years ago when the Company was first  
11 formed.

12 Eastman in its filing respectfully  
13 requests approval for the financing of the 2008 and 2009  
14 capital improvements, and an increase in rates to service  
15 the debt and earn a return on the investment and to cover  
16 its operating costs. If the financing and rate filing is  
17 accepted as updated, the Company would realize an annual  
18 increase in its capital reserve funds of \$48,004 in order  
19 to service the debt associated with borrowing \$344,534 for  
20 the 2008 and 2009 system improvements.

21 In addition, if the financing and the  
22 rate filing is accepted as updated, the Company would  
23 realize an annual increase in operating revenues of  
24 \$25,649 in order to recover its operating expenses and to

1 earn a fair and reasonable return on its investment.

2 The average annual amount for a  
3 residential customer would increase from \$223.32 to  
4 \$359.97, an increase of \$136.65, or approximately  
5 60 percent. Eastman has not raised its rates since it was  
6 purchased by the Association in 2001. And, in fact, the  
7 rates have remained at the same current level for the past  
8 16 years.

9 Eastman requested that the proposed  
10 rates be effective immediately. The Commission, in its  
11 order, suspended the proposed rates in order to conduct a  
12 thorough investigation. In anticipation of the Commission  
13 suspending those rates, the Company has already filed  
14 testimony and schedules to support temporary rates. As  
15 such, the Company is requesting that the PUC issue an  
16 order on temporary rates so that the Company can  
17 incorporate such rates in its fourth quarter billing  
18 scheduled for late December of this year or early January  
19 of next year.

20 Eastman looks forward to working with  
21 the Company -- Eastman looks forward to working with the  
22 Commission and its Staff during this proceeding. We  
23 believe that we'll be able to come to a mutually  
24 satisfying settlement, which can be presented to the

1 Commissioners for their approval. Thank you.

2 CHAIRMAN GETZ: Thank you.

3 Ms. Thunberg.

4 MS. THUNBERG: Good morning,  
5 Commissioners. In this rate case, Staff will be  
6 reviewing, as usual, the proposed increase to permanent  
7 rates. Staff will be conducting discovery and will  
8 conduct a thorough audit of the Company's books and  
9 records. There are a few issues as Staff sees it.  
10 There's always the issue of rate design. There are 535  
11 customers, 533 of them are residential customers and two  
12 are commercial customers. But rate cases offer a good  
13 opportunity to look at rate design and the allocation of  
14 the revenue requirement. There is no proposed change to  
15 the revenue -- the allocation, but, nonetheless, Staff  
16 feels it's a good time to take a look at that again.

17 With respect to the capital  
18 improvements, Staff will be looking, in particular, at  
19 this muffin monster grinder at the headworks to find out  
20 what that is, looking at the West Cove A and B  
21 improvements in pumps and meters, and we'll be reviewing  
22 those for prudence and reasonableness, and also for used  
23 and usefulness, if they are going to be put into rate  
24 base. Staff is aware that there are customer complaints

1 of backups, and that these capital improvements are  
2 intended to address those problems.

3 With respect to the reference in the  
4 Company's prehearing statement that the rates have not  
5 changed in 16 years, that is correct. But, in 2004, there  
6 was a investigation into over-earnings. So, it's not like  
7 it's been 16 years since Staff has taken a look at the  
8 Company's books and records and rates.

9 Staff has been made aware by the Company  
10 that there is an increase in the CLD Engineering report  
11 that may triple the cost of the improvements. And, as  
12 Staff has heard this morning, the 46 percent overall  
13 increase to the resident -- to the customers is now up to  
14 60 percent. Staff will be looking at the existing notice  
15 that went out in the suspension order to make sure that  
16 the notice does cover this change in the filing. And,  
17 Staff will make a report to the Commission on its  
18 recommendation as to the notice issue in its procedural  
19 letter that customarily follows the tech session of this  
20 docket.

21 Another issue is the capital reserve  
22 account. Just to remind you, that Eastman Sewer existed  
23 prior to the 1986 statute change which brought sewer  
24 companies into the jurisdiction of the Commission. At

1 that point, the assets had been, for tax purposes, or had  
2 been dealt with in -- or, I'm sorry, they were written  
3 off, is that --

4 MR. NAYLOR: That's a good word.

5 MS. THUNBERG: Sorry, I'm losing the  
6 description. But they were already dealt with in the Tax  
7 Code -- in the tax filing so that they could not be in  
8 rate base. And, so, the capital reserve account was  
9 created to try to give the Company some kind of earnings  
10 basis. Is that appropriate going forward? We don't know,  
11 but we want to flag that as an issue that we're going to  
12 look at in discovery. There are a number of proforma  
13 adjustments to the 2007 test year. Staff will be looking  
14 at those to make sure that they are reasonable for the  
15 Company going forward.

16 With respect to temporary rates, the  
17 Company has asked that temporary rates be made effective  
18 immediately. That can't happen. But Staff will be  
19 working with the Company to determine a reasonable  
20 implementation date. I know that the Company has  
21 requested that the Commission order -- or, issue an order  
22 approving temporary rates in order to capture them in a  
23 fourth quarter billing. But that implies a bills rendered  
24 basis implementation of the rate. That is prohibited by

1 our administrative rules. Service rendered is required.  
2 So, that's another issue that we'll be working out with  
3 the Company.

4 One administrative point is that the  
5 Company requested a waiver of some of the filing  
6 requirements of its 1600 rules. Staff concurs with that  
7 waiver request, because this is a small company, and some  
8 of the administrative rules envision a larger company with  
9 larger filings. So, Staff recommends the Commission grant  
10 that waiver.

11 So, other than that, Staff expects to  
12 work with the Company in the technical session following  
13 this prehearing to develop a proposed procedural schedule.  
14 And, we will submit that procedural schedule in the next  
15 few days. Thank you.

16 CHAIRMAN GETZ: Thank you.

17 CMSR. BELOW: Yes. I'm just curious,  
18 what's the -- roughly, what's the mix for residential  
19 customers of seasonal versus year-round?

20 MR. HARDING: The demographics have  
21 changed somewhat over the last few years, Mr. Below. And,  
22 it's hard to nail down. But it's probably approximately  
23 two-thirds residential year-round and one third seasonal.  
24 It used to be just the opposite going back 10 or 15 years.

1 So, it's less of a part-time community, more of a  
2 full-time community.

3 CMSR. BELOW: But the rate's a fixed  
4 rate, it's not volumetric?

5 MR. HARDING: Correct.

6 CMSR. BELOW: So, it doesn't matter  
7 whether somebody's seasonal or year-round?

8 MR. HARDING: That's correct.

9 CMSR. BELOW: Okay. Thank you.

10 CHAIRMAN GETZ: And, if you could just  
11 identify yourself for the record for the --

12 MR. HARDING: I'm sorry. Brian Harding.  
13 I'm General Manager for the Eastman Sewer Company.

14 CHAIRMAN GETZ: Anything else that we  
15 need to address this morning?

16 (No verbal response)

17 CHAIRMAN GETZ: Okay. Then, hearing  
18 nothing, we will close the prehearing conference and await  
19 a recommendation as to a procedural schedule. Thank you.

20 **(Whereupon the prehearing conference**  
21 **ended at 10:19 a.m. and the Staff and**  
22 **the Company convened a technical session**  
23 **thereafter.)**

24