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2
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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 15, 2009 - 10:09 a.m.
Concord, New Hampshire

NHPUC OCT 22 '09 AM 10:45

RE: DG 09-139
CONCORD STEAM CORPORATION:
Notice of intent to file rate schedules.
(Prehearing conference and hearing on
temporary rates)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Clifton C. Below
Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: Reptg. Concord Steam Corporation:
Sarah B. Knowlton, Esq. (McLane, Graf...)

Reptg. PUC Staff:
Matthew J. Fossum, Esq.
Stephen Frink, Asst. Dir. - Gas & Water Div.
Robert Wyatt, Gas & Water Division

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

ORIGINAL

1

2

I N D E X

3

PAGE NO.

4

WITNESS: PETER BLOOMFIELD

5

Direct examination by Ms. Knowlton

6

6

Cross-examination by Mr. Fossum

21

7

Interrogatories by Cmsr. Ignatius

23

8

Redirect examination by Ms. Knowlton

24

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WITNESS: STEPHEN P. FRINK

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Direct examination by Mr. Fossum

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CLOSING STATEMENTS BY:

PAGE NO.

18

Mr. Fossum

32

19

Ms. Knowlton

32

20

21

22

23

24

1

2

E X H I B I T S

3

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

4

1

Filing by Concord Steam
regarding temporary rates and
permanent rates, including the
Direct Testimony of Peter
Bloomfield, P.E., including
attachments (09-04-09)

31

5

6

7

2

Testimony of Stephen P. Frink,
including attachments

31

8

9

3

Proposed procedural schedule

31

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{DG 09-139} [PHC & Temporary Rates] {10-15-09}

1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DG 09-139. On
4 September 4, 2009, Concord Steam filed a petition for an
5 increase in its distribution revenues of \$341,940, or
6 6.53 percent annually. The increase will be spread
7 proportionally among the three tiers of its declining
8 block rate structure. In addition, the Company seeks
9 temporary rates equal to the permanent rate increase
10 request for service after -- on or after November 1, 2009.
11 The order was issued on September 14 suspending the tariff
12 and scheduling the prehearing conference and temporary
13 rate hearing.

14 Can we take appearances please.

15 MS. KNOWLTON: Good morning, Chairman
16 and Commissioners. My name is Sarah Knowlton. I'm with
17 the McLane law firm. I'm here today on behalf of Concord
18 Steam Corporation. And, with me today from the Company is
19 Peter Bloomfield and Mark Saltsman. And, the Company will
20 be calling Mr. Bloomfield as its only witness.

21 CHAIRMAN GETZ: Okay. Thank you. Good
22 morning.

23 MR. BLOOMFIELD: Good morning.

24 MR. SALTSMAN: Good morning.

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

1 MR. FOSSUM: And, good morning. Matthew
2 Fossum, for the Staff of the Commission. And, with me
3 today are Bob Wyatt and Steve Frink from the Commission.

4 CHAIRMAN GETZ: Good morning, Mr.
5 Fossum. You sound like you're getting worse, instead of
6 better.

7 MR. FOSSUM: I'm hoping by tomorrow I'll
8 be completely mute.

9 CHAIRMAN GETZ: Okay. Are we ready to
10 proceed?

11 MS. KNOWLTON: We are. Thank you. The
12 Company calls Peter Bloomfield.

13 (Whereupon Peter Bloomfield was duly
14 sworn and cautioned by the Court
15 Reporter.)

16 MS. KNOWLTON: May I proceed?

17 CHAIRMAN GETZ: Please.

18 MS. KNOWLTON: Before I begin my
19 examination of Mr. Bloomfield, the Company has marked for
20 identification as "Exhibit 1" Mr. Bloomfield's temporary
21 rate testimony, the schedules that he filed in support of
22 temporary rates, along with the schedules that were filed
23 in support of permanent rates. And, it's the filing that
24 is hand numbered beginning on Page 16 and goes through

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 Page 49.

2 CHAIRMAN GETZ: Okay. Thank you.

3 PETER BLOOMFIELD, SWORN

4 DIRECT EXAMINATION

5 BY MS. KNOWLTON:

6 Q. Mr. Bloomfield, would you state your full name for the
7 record please.

8 A. Peter Bloomfield.

9 Q. And, by whom are you employed?

10 A. Concord Steam.

11 Q. In what capacity?

12 A. I am the President.

13 Q. And, how long have you held that position?

14 A. Since 1986.

15 Q. And, what is your educational background, Mr.
16 Bloomfield?

17 A. A Mechanical Engineering degree from Union College in
18 upstate New York.

19 Q. On September 4th, 2009, did you file a request for
20 permanent and temporary rate relief with the
21 Commission?

22 A. Yes.

23 Q. And, is that the -- well, did you file testimony in
24 support of your temporary rate petition?

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

- 1 A. Yes, I did.
- 2 Q. And, is that testimony included in what's been marked
3 for identification as "Exhibit 1"?
- 4 A. Yes.
- 5 Q. And, do you have that before you?
- 6 A. I do.
- 7 Q. And, attached to that testimony are schedules filed by
8 the Company, correct?
- 9 A. That's correct.
- 10 Q. And, are those the schedules that are required by the
11 Commission as part of a rate filing?
- 12 A. Yes, they are.
- 13 Q. And, do these schedules support the Company's request
14 for both temporary and permanent rate relief?
- 15 A. Yes.
- 16 Q. Was the testimony prepared and schedules prepared by
17 you or under your direction?
- 18 A. Yes, it was.
- 19 Q. And, if I were to ask you the questions that are
20 contained in your testimony today, would the answers
21 still be the same?
- 22 A. Yes.
- 23 Q. Do you have any corrections to Exhibit 1 that you would
24 like to note?

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 A. Yes, there are a couple of minor corrections.

2 Q. And, if you could walk through them and identify the
3 page numbers?

4 A. Yes. On Page 26, it comes from cutting and pasting
5 from previous rate cases. But the dates at the top of
6 the two columns should read "12/31/08" on both of those
7 two columns on that page.

8 Q. That's "12 months ended" --

9 A. "12 months ended", it should read "12/31/08", instead
10 of "12/31/06". And "Proformed 12 months ended" should
11 read "08", instead of "06".

12 Q. Thank you. Are there any other corrections?

13 A. And, then, on Page 36, similar, there has been -- we're
14 talking two rate cases now, "Test year ending" should
15 read "2008", not "2003".

16 Q. Thank you. Mr. Bloomfield, if you would summarize the
17 testimony that you've provided in support of the
18 Company's request for a temporary rate increase.

19 A. The last rates were set by the Commission in 2008,
20 which established an allowed rate of return overall of
21 7.24 percent. Due to a number of issues of general
22 business climate and expenses, the Company is earning
23 -- has a loss in the past test year that equates to a
24 rate of return of a negative 5 percent approximately.

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 Q. And, what is the test year in this case, Mr.

2 Bloomfield?

3 A. 2008.

4 Q. So, the calendar year 2008 ending December 31st?

5 A. Calendar year 2008, yes.

6 Q. Okay. You may continue your summary.

7 A. There's really two primary reasons for the under
8 earning, and probably the largest one is lower steam
9 sales. And, we haven't lost any significant numbers of
10 buildings, certainly it's nothing large in the past
11 couple of years, to other heat sources, but what we
12 have noticed is that there's been a lot of empty
13 buildings downtown. That there's a lot of empty store
14 fronts. There's a number of buildings that have empty
15 office space. And, as a result, between that and we
16 feel between that and just a general increase in cost
17 and conservation, that we seem to feel that that's the
18 reason why our steam sales have dropped as much as they
19 have.

20 Q. So, has the Company's overall number of customers
21 remained fairly constant?

22 A. Yes, that's correct. We haven't lost any customers in
23 the past two years. There's just been a general
24 reduction in steam consumption.

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 Q. And, you've seen that reduction in the test year?

2 A. That's correct, yes.

3 Q. And, you mentioned that the Company has experienced
4 increases in some of its operating expenses. Would you
5 identify what some of those areas are where you've seen
6 increases?

7 A. Yes. Chemical costs, we've had to increase our line of
8 credit, and, therefore, even though interest rates have
9 gone down, we've got higher -- more money out, and so
10 we've got higher interest costs over the year. Health
11 insurance, other -- just generally miscellaneous
12 increase in costs.

13 Q. Okay. If you would look at Page 21 of Exhibit 1, and
14 that's the hand numbered page "21" at the bottom.
15 Would you identify for the Commission what this
16 schedule is?

17 A. It's just a summary of revenue deficiency for the --
18 for our request for temporary rates.

19 Q. And, what is the revenue deficiency that the Company is
20 seeking as part of the temporary rate increase?

21 A. We're asking for an increase of \$341,940.

22 Q. And, based on this schedule, can you walk us through
23 how it is that you derived that number?

24 A. Given our rate base that's over proformed -- we have a
 {DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 proformed and unperformed. For the temporary rates,
2 we're basically focusing on the non-proformed year.
3 So, our rate base shows our allowed rate of return, our
4 income required that we would need to meet that rate of
5 return, and showing the loss last year of the \$173,000,
6 and resultant tax effects, that we could be asking for
7 over \$750,000, we're only asking for the \$341,000.

8 Q. Okay. Are your calculations in the column under
9 "Actual Test Period" based on books and records on file
10 with the Commission?

11 A. Yes, they are.

12 Q. And, why is it the Company is not seeking the \$757,000
13 in a revenue deficiency, at least on a temporary rate
14 basis?

15 A. We're looking at the long run, in terms of the overall
16 plans of the project -- of the Company, and building
17 the new project and being able to reduce steam rates
18 significantly in a few years, once the new project
19 comes on line. And, we want to make sure that we
20 retain the customers we have. So, we're doing what we
21 can to keep our -- all of our costs down as much as
22 possible.

23 Q. When you refer to the "new project", what are you
24 talking about?

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 A. Concord Steam is working on developing a wood-fired
2 steam and power plant in town, such that the existing
3 facility would be shut down and dismantled, and that
4 Concord Steam would buy all of its steam requirements
5 from the new facility.

6 Q. And, that new facility would not be owned by Concord
7 Steam, correct?

8 A. That's correct.

9 Q. And, is the level of temporary rates that the Company
10 is seeking in this docket the same as the permanent
11 rate increase that the Company has made to the
12 Commission?

13 A. Yes, it is.

14 Q. And, when would the temporary rates take effect?

15 A. We'd like the temporary rates to take effect
16 November 1.

17 Q. And, on a -- is that on a service-rendered basis?

18 A. On a service-rendered basis.

19 Q. And, how is it that you derived that date?

20 A. We have roughly five months or so during the year,
21 since we provide heat, it's a very seasonal time, and
22 the great majority of our revenues come in during the
23 heating season. So, in order to have the rate effect
24 have any -- make any real difference for us, it has to

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 be during the heating season.

2 Q. Okay. And, looking still on Page 21, towards the lower
3 third of the page, I see your existing and your current
4 rates. Would you -- I'm sorry, your existing rates and
5 what's proposed. Would you walk us through, for each
6 of the blocks, what the increase would be, if approved?

7 A. Yes. It's based on a declining block rate. Our
8 existing rates for the first 500 Mlbs, or the first
9 500,000 pounds per month, is \$15.87. We're asking to
10 increase that to \$18.54. The second tier block is
11 presently charged at \$13.93. We'd like it increased to
12 \$16.27. And, the third block is anything over 2,000
13 Mlbs per month, and that's presently charged at \$11.54,
14 that we're asking to be increased to \$13.48.

15 Q. Okay. And, then, looking further down I see that
16 you've got two percentage increases. You show a "Base
17 rate increase" of "16.82 percent", and then a little
18 further down a "Total rate percentage increase" of
19 "6.53 percent". Can you explain what those two numbers
20 are and how they differ --

21 A. Yes.

22 Q. -- or why they're different?

23 A. The rate structure for Concord Steam is basically in
24 two, there's the cost of energy and there's our base

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 rates. Just our -- the increase in just our base rates
2 is the 16.8 percent. But, when you include the energy
3 revenue in there, from last year's energy revenue, the
4 total increase for the total bill is roughly six and a
5 half percent. And, that's based on energy revenues of
6 last year and last year's costing. We have a docket, a
7 cost of energy filing pending with the Commission,
8 that, if those rates are approved, our overall rate
9 will actually be reducing by about 5 percent, because
10 our energy rates have come down since last year.

11 Q. If you would turn back a page to Page 20.

12 A. Yes.

13 Q. Mr. Bloomfield, just to follow up on something that you
14 just said, you said that the Company's rates I think I
15 heard you say would actually "go down by 5 percent",
16 their overall rates?

17 A. That's correct.

18 Q. That's on an overall basis, combined with --

19 A. That's on an overall combined basis, with the new base
20 rates and the new cost of energy rates that we have
21 filed and pending.

22 Q. So, if the Commission were to approve the request in
23 this case, along with the requested level of energy in
24 the other docket, that would be the effect?

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

- 1 A. That's correct.
- 2 Q. Okay. All right. Now, if we could turn to Page 20,
3 this, on the bottom half of the page, indicates the
4 effect on each of the customer classes of the proposed
5 increase. Can you walk us through that please?
- 6 A. Yes. There's -- due to the declining block rate, we
7 have three declining blocks. And, just as an example,
8 some typical usage from some typical customers that we
9 have, and showing the effect of a small customer, and
10 what its previous base rate would have been, what its
11 new base rate charge would be, and then the increase in
12 base rates, and then showing the energy charge.
- 13 Q. And, again, you -- the last column, "Increase of total
14 bill", that's reflecting an increase of the cost of
15 energy, if approved, along with the increase in the
16 distribution rates that are before the Commission
17 today?
- 18 A. No. The cost of energy shown here is what was
19 previous.
- 20 Q. Okay.
- 21 A. Last year's cost of energy.
- 22 Q. Right. Okay. So, the numbers in that further column
23 to the right actually would be lower?
- 24 A. That those cost of energy numbers are based on what the
 {DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

- 1 posted tariff cost of energy rate is now, which is
2 listed at the bottom of the page at \$21.31 per Mlb.
- 3 Q. Okay. If the Commission were to adopt the Company's
4 request for temporary rate relief, what would be its
5 overall allowed return?
- 6 A. The resulting return would be approximately one and a
7 half percent return.
- 8 Q. Are you aware that the Staff is supporting the
9 Company's request for temporary rates?
- 10 A. Yes, I am.
- 11 Q. And, are you aware that Mr. Frink calculates the
12 allowed return to be 1.98 percent?
- 13 A. Yes.
- 14 Q. In your opinion, are the temporary rates as proposed
15 just and reasonable?
- 16 A. Yes.
- 17 Q. And, why is that?
- 18 A. Based on what the Commission has found in previous
19 orders of return on equity, we're well below what has
20 been previously considered reasonable.
- 21 Q. And, that's for other utilities?
- 22 A. For other utilities, yes.
- 23 Q. Okay. I want to ask you a few questions about the
24 Company's operations. You indicated that the Company
- {DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 plans to discontinue the manufacture of steam in the
2 future. Would you provide the Commission with an
3 update on the status of the new cogeneration plant?

4 A. Yes. We have all of the permits that we need. We have
5 our financing lined up. Some last details of that have
6 only just come out with some federal loan guarantees
7 that were just issued about a week ago. But we TD Bank
8 has stayed committed to the project. What has been
9 delaying us is getting a long-term purchase power
10 agreement that would enable us to get it financed.
11 And, we've been working with a number of different
12 utilities to try and find some, and have not been
13 successful in signing up the long-term contracts that
14 we need as of yet.

15 Q. Do you have a projected construction date for this
16 facility?

17 A. We hope to start construction in the Spring of 2010.

18 Q. And, my recollection is is that the Company's lease
19 with the State for its current facility on Pleasant
20 Street expires in August of --

21 A. In 2010.

22 Q. -- 2010, correct?

23 A. That's correct.

24 Q. And, has the Company made any provisions to extend its
{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 lease so that it continues -- it may continue to
2 service its customers?

3 A. Yes, we have. The construction time for the project is
4 approximately a two-year construction period. So that,
5 if we start in 2010, won't be completed and on line
6 until 2012. So, we have come to agreement with the
7 State that we will be extending the lease. The details
8 of the lease extension have not been entirely worked
9 out, but they have agreed and we'll agree that, yes, it
10 will be extended and needs to be extended and that is
11 in process.

12 Q. Okay. Do you have any reason to believe that that
13 extension will not be granted?

14 A. No.

15 Q. Mr. Bloomfield, the margin that the Company is -- would
16 be operating under with these rate increase is quite
17 slim, as you testified, and the Company certainly would
18 be entitled, just based on its books and records,
19 without any -- on file with the Commission, without any
20 proforma adjustments, to a much higher rate increase.
21 Given that the Company is asking for such a small
22 amount of that revenue deficiency, can you, you know,
23 please indicate whether or not you think the Company is
24 able to provide safe and reliable service to its

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 customers, you know, given the economics that are set
2 forth in this rate filing?

3 A. Yes. Yes. All of the -- all of the critical services
4 that we need to provide we will be able to continue to
5 provide as we have been. We don't see any change in
6 service of supplying a generation of steam and service
7 to the customers.

8 Q. Has the Company had to make any cutbacks as a result of
9 its -- as a result of the revenue deficiency that it's
10 experienced in the test year?

11 A. Yes. We've had some layoffs in the past couple of
12 months, but they're what we view as unfortunate, and
13 hopefully temporary layoffs, but they're layoffs that
14 have affected some of the construction work and some of
15 in-plant maintenance issues that we -- that won't
16 affect the operation or the supply of steam.

17 Q. And, how is it that that won't affect those operations?

18 A. Well, much of our maintenance work is done during our
19 off-heating season, our summer and shoulder months.
20 And, that's when all of our major construction work is
21 done with line extensions and line repairs and that
22 kind of thing. And, that the folks that we laid off,
23 that's why we waited until September to do that, so
24 that we could get all of that summer work done, and
 {DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 those personnel are not absolutely required to keep the
2 plant operational.

3 Q. Have you done any restructuring of the remaining jobs
4 to accommodate the work that was performed by some of
5 the employees that were let go, to the extent that that
6 work needs to continue throughout the heating season?

7 A. Yes. Yes. We have rebalanced what work needs to get
8 done and have things under control in that respect.

9 Q. In your opinion, are the temporary rates proposed by
10 the Company in this docket in the public interest?

11 A. Yes.

12 MS. KNOWLTON: The Company has nothing
13 further for Mr. Bloomfield.

14 CHAIRMAN GETZ: Okay. Thank you.
15 Before we turn to Mr. Fossum, I'd like to take care of a
16 couple of procedural things. Just note for the record we
17 have the affidavit of publication with respect to the
18 order scheduling the hearing and prehearing conference.
19 And, just note that this somewhat unusual approach that
20 the tech session was held in advance of the prehearing
21 conference, and it appears that we have a proposal on a
22 procedural schedule. And, I'll just note that there are
23 no Petitions to Intervene and no one has appeared to
24 intervene. So, I think that takes care of the only other

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 types of procedural issues we would deal with in a
2 prehearing conference.

3 So, Mr. Fossum.

4 MR. FOSSUM: Okay. I guess I just have
5 just one question.

6 CROSS-EXAMINATION

7 BY MR. FOSSUM:

8 Q. Mr. Bloomfield, you've spoken about the layoffs that
9 the Company has done recently, that you stated were
10 "hopefully temporary" and you "rebalanced" the
11 workloads for now. Will that have any impact on the
12 Company's operations next summer, when you engage more
13 heavily in your planned maintenance and other work?

14 A. It could. Some of our projections in personnel costs
15 have allowed for us hiring back some people as
16 necessary to do maintenance work as we need it.

17 Q. Also, you currently have opened with the Commission
18 another docket relating to -- a couple of dockets
19 related to financing and a special contract with
20 Rundlett School, is that correct?

21 A. That's correct.

22 Q. Could you, just for the record, just very briefly
23 explain what's going on with that project?

24 A. Yes. The Concord School District, Rundlett Middle
{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 School has had -- actually had boiler problems there
2 for years, and has finally plans -- have plans that are
3 in the works to redo the infrastructure of that school,
4 the heating and ventilating systems. And, part of it
5 involves taking the boilers out and adding Concord
6 Steam as a supply of heat for that school. It
7 involved, in the case of Concord Steam, running a steam
8 line of about 2,500 feet over to the school, and
9 they're doing their internal work that they need to do
10 to be able to use the steam and modify their HVA
11 systems accordingly.

12 Q. So, Rundlett then is a new customer for Concord Steam?

13 A. Yes, that's right.

14 Q. And, is the load represented by that new customer, does
15 that appear in the filing here?

16 A. Yes, it does.

17 Q. So, that is accounted for in the calculation of rates
18 for this filing?

19 A. Yes, it is. In this filing, there was an assumption of
20 steam that would be used for the first year. In our
21 first conversations with the school, we assumed that
22 they would use 12,000 Mlbs a year. And, as more recent
23 information has come to light, their actual use for the
24 first year is going to be somewhat less, primarily

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 because, as they -- right now they're using the
2 equivalent of 9,000 Mlbs a year. But, as they revamp
3 their HVA system and increase the number of air changes
4 per hour, it's going to increase their heating
5 requirements as well. We expect that to grow to the
6 roughly 12,000 Mlbs a year in a couple of years.

7 Q. Similarly, you had said that the Company has lost some
8 steam sales for a couple of reasons. Is there an
9 adjustment in this filing that accounts for those
10 losses?

11 A. Yes, there is.

12 MR. FOSSUM: Okay. Thank you. I have
13 nothing further.

14 CHAIRMAN GETZ: Commissioner Below?

15 CMSR. BELOW: No.

16 CHAIRMAN GETZ: Commissioner Ignatius?

17 BY CMSR. IGNATIUS:

18 Q. Mr. Bloomfield, have you been successful in attracting
19 other new customers? You said you hadn't lost any over
20 the last couple of years.

21 A. We have not lost any. We've got the Rundlett Middle
22 School. We are working hard with the new buildings on
23 South Main Street that Steve Dupree is putting up and
24 CATCH is putting up, that we're working hard with them,
 {DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: Bloomfield]

1 and it's looking positive that they will actually be
2 using steam as well.

3 CMSR. IGNATIUS: Thank you.

4 CHAIRMAN GETZ: Okay. Anything --
5 Redirect, Ms. Knowlton?

6 MS. KNOWLTON: I have one question.

7 REDIRECT EXAMINATION

8 BY MS. KNOWLTON:

9 Q. Mr. Bloomfield, you were asked about the Rundlett
10 School load, and you indicated that that had been
11 factored into this case. But can you indicate for the
12 record whether that was -- when you say "factored in",
13 was that factored in in the test year or is that a
14 proforma adjustment that you reflected in the rate
15 filing?

16 A. That is proforma adjustment. That's correct.

17 MS. KNOWLTON: Thank you.

18 CHAIRMAN GETZ: Okay. Anything further
19 for the witness?

20 (No verbal response)

21 CHAIRMAN GETZ: Hearing nothing, then
22 you're excused. Thank you, Mr. Bloomfield.

23 WITNESS BLOOMFIELD: Thank you.

24 CHAIRMAN GETZ: Just off the record for

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 a second.

2 (Brief off-the-record discussion
3 ensued.)

4 CHAIRMAN GETZ: Back on the record.

5 Mr. Fossum.

6 MR. FOSSUM: I call Steve Frink to the
7 stand please.

8 (Whereupon Stephen P. Frink was duly
9 sworn and cautioned by the Court
10 Reporter.)

11 STEPHEN P. FRINK, SWORN

12 DIRECT EXAMINATION

13 BY MR. FOSSUM:

14 Q. Could we begin by just having you state your name and
15 business address for the record please.

16 A. My name is Stephen Frink. And, my business address is
17 21 South Fruit Street, Concord, New Hampshire.

18 Q. And, you are employed by the Commission, that's
19 correct?

20 A. That's correct.

21 Q. And, what is your position and responsibilities with
22 the Commission?

23 A. I'm the Assistant Gas and Water Director. And, I'm
24 primarily responsible for overseeing the gas and steam
{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 utilities.

2 Q. And, you submitted prefiled testimony in this matter?

3 A. Yes, I did.

4 MR. FOSSUM: And, I would note that

5 Mr. Frink's testimony has been marked already as "Exhibit

6 2" for identification.

7 BY MR. FOSSUM:

8 Q. That testimony, do you at this time have any

9 corrections or additions for that testimony?

10 A. I do not.

11 Q. And, if you were to be asked those questions today,

12 would your answers be the same as they were?

13 A. Yes, they would.

14 Q. Thank you. Could you briefly summarize your testimony

15 please.

16 A. Yes. I did an analysis of the temporary rates using

17 the typical approach used by Staff in analyzing

18 temporary rates, where we take test year net income and

19 test year rate base, without any pro forma adjustments,

20 and then we update the cost of capital to reflect what

21 the Commission is currently granting for return on

22 equity, and use the actual long-term and short-term

23 debt costs of the Company to come up with a weighted

24 cost of capital. And, when I performed those, that

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 analysis, I calculated a revenue deficiency of
2 approximately \$766,000. And, my testimony notes that
3 the Company's request for temporary rates is less than
4 half that and it supports the proposal for temporary
5 rates. I note that keeping the rates low is important
6 for them to remain competitive with the existing fuel
7 -- with the competitive fuels and to retain existing
8 customers. And, admittedly, it's low. But, longer
9 term, the Company is building a -- is restructuring,
10 and hopefully that issue will be resolved at that point
11 in time.

12 I also recommend a November 1st
13 effective date for temporary rates. One, as Mr.
14 Bloomfield stated, that's when the heating season
15 begins, and also the cost of energy rate -- the change
16 in the cost of energy rate is effective on that date,
17 and the cost of energy rate is -- the proposed rate is
18 a decrease in costs that exceeds the proposed increase
19 for temporary rates. So, there's actually a net
20 decrease in customers' rates. So, the rate impact will
21 be limited, they will actually see a decrease from last
22 year's rates compared the upcoming year.

23 I also recommended that the Commission
24 grant the request for a waiver of certain filing
 {DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 requirements, because that should reduce rate case
2 expenses, which typically are passed onto customers
3 through a rate case expense surcharge.

4 And, that completes my summary.

5 Q. So, you stated that you supported the Company's request
6 for a revenue increase of about half of its deficiency.
7 At that level of rate increase, what, and I know Mr.
8 Bloomfield has already explained this to some degree,
9 but what rate of return would the Company be earning at
10 that rate?

11 A. I calculated a rate of return of 1.98 percent.

12 Q. And, you consider that to be a just and reasonable rate
13 for the Company?

14 A. Under the circumstances, yes. It's low, it is -- but
15 it is a profit and allows them to continue their
16 current operations. And, as I said, longer term, the
17 prospects are much better.

18 Q. Now, what makes their prospects better in the longer
19 term, in your opinion?

20 A. The proposed restructuring will allow them to
21 significantly reduce their operating costs. Once that
22 takes place and the new plant comes on line, rates are
23 expected to decrease by approximately 30 percent. And,
24 with that -- that decrease envisions a rate of return

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 more in line with what other utilities receive, and
2 while reducing customers' rates, that 30 percent
3 decrease is overall rates. So, they should be able to
4 meet all their operating requirements and earn a decent
5 profit, and customers experience lower costs as a
6 result of their restructuring.

7 Q. You had heard Mr. Bloomfield note that the Company has
8 currently laid off some employees to save costs. Do
9 you believe that that will have any effect on the
10 Company's ability to provide safe and reliable service?

11 A. In the short term, no. We've had a technical session
12 with the Company and have been over it. And, they, as
13 Mr. Bloomfield stated, they have restructured, they
14 have allowed for additional overtime to make up for
15 some of the laid-off employees. And, they have assured
16 us that operations won't be impacted. That they will
17 -- the distribution system is fine, and that the plant
18 operations will continue as they currently are.

19 Q. And, finally, as to the Company's request for permanent
20 rates in this matter, what is Staff's initial position
21 on that request?

22 A. They appear reasonable, but we'll be doing a thorough
23 investigation. And, we've presented a proposed
24 procedural schedule that allows for an audit of the

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 Company's books and the investigation we envision. So
2 as I say, it appears reasonable. We won't have a final
3 opinion until that investigation is undertaken.
4 Obviously, there's a concern with, along with the
5 customer rate impacts, there's a concern with the
6 Company operations, given the small increase, compared
7 to their -- what they could be earning, and given the
8 substantial losses they experienced last year. But,
9 again, looking long term, it's important to retain
10 those customers. And, so, the Company is doing its
11 best to balance what they're charging customers and
12 being able to meet their needs, their operating needs.

13 Q. And, just very quickly, you had -- in your answer you
14 had referenced the proposed procedural schedule. Is
15 that -- that schedule is the schedule that's been
16 marked as "Exhibit 3" in this matter, is that correct?

17 A. That's correct.

18 MR. FOSSUM: Thank you. Nothing
19 further.

20 CHAIRMAN GETZ: Ms. Knowlton?

21 MS. KNOWLTON: I have nothing for Mr.
22 Frink.

23 CHAIRMAN GETZ: Commissioner Below?

24 CMSR. BELOW: No.

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

[WITNESS: FRINK]

1 CHAIRMAN GETZ: Commissioner Ignatius?
2 No questions from the Bench. Is there anything further,
3 Mr. Fossum?

4 MR. FOSSUM: No, sir.

5 CHAIRMAN GETZ: Then, the witness is
6 excused. Thank you, Mr. Frink.

7 Well, let me just put this on the
8 record. Then, we'll mark for identification then the
9 entire package filed by the Company on September 4th,
10 including the temporary rate and permanent rate increase
11 materials. And, then, Mr. Frink's testimony will be
12 Exhibit 2. And, then, the exhibit three would be the
13 proposed procedural schedule.

14 (The documents, as described, were
15 herewith marked as Exhibit 1, Exhibit 2
16 and Exhibit 3, respectively, for
17 identification.)

18 CHAIRMAN GETZ: So, is there any
19 objection to striking the identifications and admitting
20 the exhibits into evidence?

21 (No verbal response)

22 CHAIRMAN GETZ: Hearing no objection,
23 they will be admitted into evidence. Opportunity for a
24 closing, Mr. Fossum.

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

1 MR. FOSSUM: Thank you. Excuse me.
2 I'll try to keep it brief, so I don't have to talk too
3 much. I guess, in short, in the short-term and for the
4 purpose of temporary rates, Staff supports the Company's
5 filing. And, while it does have some concerns about the
6 low rate of return, it appears that in the longer term it
7 makes sense for the Company. We'll be completing a more
8 thorough review of the Company's books and records and
9 financial standing in anticipation of recommendations and
10 proposals on permanent rates. We look forward to working
11 with the Company to achieve a resolution on that. Thank
12 you.

13 CHAIRMAN GETZ: Thank you.
14 Ms. Knowlton.

15 MS. KNOWLTON: Thank you. The Company
16 has demonstrated that it is entitled to a temporary rate
17 increase based on its books and records on file with the
18 Commission, and which also was supported by the testimony
19 of Mr. Bloomfield and Mr. Frink. I think that there's, in
20 my mind, no question that the amount of the increase is
21 just and reasonable. I do think that Mr. Bloomfield has
22 provided adequate assurance that the utility can continue
23 to operate in a safe and reliable way to its customers,
24 you know, during this period in which it makes a

{DG 09-139} [PHC & Temporary Rates] {10-15-09}

1 transition to a different way of obtaining steam to serve
2 its customers.

3 The Company certainly looks forward to
4 working with the Staff on the audit and the rest of the
5 docket, and would ask that the rate increase be approved
6 as proposed.

7 CHAIRMAN GETZ: Okay. Thank you. Then,
8 we'll close the hearing and take the matter under
9 advisement.

10 (Whereupon the prehearing conference and
11 the hearing regarding temporary rates
12 ended at 10:52 a.m.)
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