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N.H.P.U.C. Case No. DW 13-128 + DW 13-13

Exhibit No. 5

Witness

DO NOT REMOVE FROM FILE

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 20, 2014 - 9:13 a.m.
Concord, New Hampshire

NHPUC JUN10'14 AM 9:41

RE: **DW 13-126**
PENNICHUCK EAST UTILITY, INC.:
Notice of Intent to File Rate Schedules.
(Hearing regarding permanent rates)

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Robert R. Scott
Commissioner Martin P. Honigberg

Sandy Deno, Clerk

APPEARANCES: **Reptg. Pennichuck East Utility, Inc.:**
Thomas B. Getz, Esq. (Devine, Millimet...)

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Jim Brennan
Office of Consumer Advocate

Reptg. PUC Staff:
Marcia A. Brown, Esq.
Mark Naylor, Director/Gas & Water Division
Jayson Laflamme, Gas & Water Division
Robyn Descoteau, Gas & Water Division

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

ORIGINAL

I N D E X

E X H I B I T S

P R O C E E D I N G

CHAIRMAN IGNATIUS: Good morning.

(Brief off the record discussion ensued.)

CHAIRMAN IGNATIUS: All right. Thank you. So, let's begin, and I apologize for my mistake. This is Pennichuck East Utility, Docket DW 13-126, and the rate case that was filed. And, Ms. Brown, as you noted, three cases were filed simultaneously with very similar terms. So, we've scheduled this for a hearing today on a Settlement Agreement that was submitted on May 14th, 2014.

Let's begin first with appearances please.

MR. GETZ: Good morning, madam Chair, Commissioners. I'm Tom Getz, from the law firm of Devine, Millimet & Branch. I'm here this morning on behalf of Pennichuck East Utility. With me this morning also are John Patenaude, who is the Chief Executive Officer of Pennichuck; Charlie Hoepper, who is the Director of Regulatory Affairs. And, seated in the witness box are Don Ware, the Chief Operating Officer, and Larry Goodhue, the Chief Financial Officer.

CHAIRMAN IGNATIUS: Good morning.

MS. HOLLENBERG: Good morning. Rorie

Hollenberg and James Brennan, here for the Office of Consumer Advocate.

CHAIRMAN IGNATIUS: Good morning.

MS. BROWN: Good morning, Commissioners. Marcia Brown, on behalf of Staff. And, with me today is Mark Naylor, Jayson Laflamme, who is already up in the witness box to testify today, and Robyn Descoteau. If I could also note that the Town of Litchfield had intervened in this proceeding. They are not attending today. But they explained to the parties that they are taking no position. The Town of Litchfield takes no position. So, I just wanted to put that in the record. Thank you.

CHAIRMAN IGNATIUS: So, the Town has seen the Settlement Agreement, and that's what it's taking no position on?

MS. BROWN: Correct.

CHAIRMAN IGNATIUS: Great. Thank you. All right. So, we have a panel seated, I assume, to present the Settlement Agreement as a group.

MS. BROWN: We also have some administrative issues to go through. We have, by agreement, a list, a numbering of exhibits we'd like to explain. We already have marked, as an "Exhibit 1", the initial filing, the Settlement Agreement for Temporary

Rates was already marked as "Exhibit 2". So, at that point, I think we would like to pick up with the Supplemental Testimony of Mr. Boisvert as "Exhibit 3". Which I realize I'm stealing Attorney Getz's thunder here, if you would like to explain that exhibit.

MR. GETZ: You should have before you an exhibit, is marked for identification as number "3", is the Supplemental Testimony of John Boisvert. And, it was filed under a cover letter September 12, 2013. And, that supplemental testimony relates to the capital projects that were done in 2013.

CHAIRMAN IGNATIUS: All right. And that's by -- everyone has copies of that, and, by agreement, that it be marked as "Exhibit 3"?

MS. HOLLENBERG: Yes.

MR. GETZ: Yes.

CHAIRMAN IGNATIUS: All right. We'll do that for identification. Thank you.

(The document, as described, was herewith marked as **Exhibit 3** for identification.)

MS. BROWN: For Exhibit 4, we proposed the Settlement Agreement on permanent rates that the parties filed on May 14th. In Docketbook, it's at Tab 32.

CHAIRMAN IGNATIUS: All right. So, marked for identification. Thank you.

(The document, as described, was herewith marked as **Exhibit 4** for identification.)

MS. BROWN: The other two documents that were referred to in the Settlement Agreement, but we neglected to attach them as attachments, are the Audit Report of the books and records of PEU, which we'd like marked for identification as "Exhibit 5". That Audit Report is dated January 21st, 2014. There was also an audit of the step increase, that was done on March 14th, 2014, and we propose to have that marked for identification as "Exhibit 6".

CHAIRMAN IGNATIUS: And, these have, obviously, been available to the parties as well?

MS. BROWN: That's correct.

CHAIRMAN IGNATIUS: All right. We'll mark those as "5" and "6" for identification. Thank you.

(The documents, as described, were herewith marked as **Exhibit 5** and **Exhibit 6**, respectively, for identification.)

MS. BROWN: The last administrative

matter, as noted earlier, we have three hearings involving the same parties, and very similar issues. And, we are proposing that -- we're requesting the Commission take administrative notice of the testimony in this proceeding in the dockets for Pittsfield Aqueduct Company, which is DW 13-128, and then Pennichuck Water Works, which is Docket Number DW 13-130. I guess you don't need to rule in this particular proceeding, but we wanted to tee that up for the subsequent hearings that we will make that request. We're not anticipating any other parties showing up, but we'll wait and see at that point.

CHAIRMAN IGNATIUS: And, anything along those lines that pertains only to this case, and not to the others, you want to make note of in the hearing this morning, and, similarly, as we go on, to distinguish any particular terms that are different from one company to another.

MS. BROWN: Correct. If I can just make the argument at this point. The provisions -- or, the portions of the testimony that we would like to have the Commission take administrative notice pertain to, if you have the Settlement Agreement in front of you, on Page 4, Section C, we discuss clarifications arising from Docket DW 11-026. These issues you will see again in the PAC case and the PWW case. So, it's testimony relating to the "Valuation of Equity-Related Items", testimony related to the "Determination of Return on Equity", testimony regarding the "Treatment of Non-Revenue Producing Assets", testimony regarding the "Eminent Domain Costs". And, then, lastly, on Page 8, Paragraph F, testimony relating to the "Municipal Acquisition Regulatory Asset". And, that was it.

CHAIRMAN IGNATIUS: Thank you. That's a good clarification. All right. Anything further or should we begin with testimony?

MS. BROWN: I said that that was my last issue, but I do have one more. In preparing for today's hearing, we noticed that some of the numbers in the "eminent domain" paragraph in the Settlement Agreements for this case, and the PAC and the PWW cases, were not correctly calculated. And, we can go over this on the stand. But I'd also like to make an offer of proof that the numbers for, let's see, on Page 7 of the Settlement Agreement, the number 540,000 should have been "$490,090". So, that should be "490,090". And, the 4,500,000 figure should have been "4,458,322". Again, that number should be "4,458,322".

If you turn to Page 40 of the Settlement

Agreement, there is a summary of audit costs to recover. The inputs are accurate, it was just the summary totals that were not accurately calculated. So, nothing else changes, just those two totals at the bottom for -- I am told that I just incorrectly changed this.

(Atty. Brown conferring with Ms. Descoteau and Mr. Naylor.)

MS. BROWN: My able staff has told me that I misinformed you as to the $4 million figure, if I could correct that now. The corrected $4 million figure is "4,458,232".

CHAIRMAN IGNATIUS: And, that would be in the second to last line on Page 7 of the Agreement and in the --

MS. BROWN: And, also on Page 40.

CHAIRMAN IGNATIUS: And, in the third column, on Page 40, is the total?

MS. BROWN: Correct. Yes.

CHAIRMAN IGNATIUS: Thank you. And, the other number is to be substituted on the third to the last line on Page 7, and the -- I'm sorry, that's not right.

MS. BROWN: I think you were correct. The amount to disallow is no longer the 540 number, it is the $490,090 number.

CHAIRMAN IGNATIUS: And, that goes into the middle column of Page 40 as well?

MS. BROWN: Yes.

CHAIRMAN IGNATIUS: The first column on Page 40 is correct, the total?

MS. BROWN: I'm looking at my staff. They told me yesterday it was correct. And, I'm seeing another nod. Yes, it's correct.

CHAIRMAN IGNATIUS: Thank you. All right.

MS. BROWN: Thank you.

(Whereupon **Donald L. Ware**, **Larry D. Goodhue**, and **Jayson P. Laflamme** were duly sworn by the Court Reporter.)

DONALD L. WARE, SWORN

LARRY D. GOODHUE, SWORN

JAYSON P. LAFLAMME, SWORN

DIRECT EXAMINATION

BY MR. GETZ:

Q. Good morning, Mr. Ware and Mr. Goodhue. I'll start with you, Mr. Ware. Would you please state your full name for the record.

A. (Ware) My name is Donald L. Ware.

Q. By whom are you employed?

A. (Ware) I'm employed by Pennichuck Water Works.
Q. And, what is your position with the Company?
A. (Ware) I am the Chief Operating Officer of Pennichuck Water Works, and also of Pennichuck East Utility.
Q. And, would you please briefly describe your duties.
A. (Ware) My duties involve the oversight of the operations in the area of Distribution, Engineering, Water Supply, and Customer Service Departments.
Q. And, Mr. Goodhue, would you please state your full name for the record.
A. (Goodhue) Yes. It's Larry D. Goodhue.
Q. And, by whom are you employed?
A. (Goodhue) Pennichuck Water Works.
Q. And, what is your position with the Company?
A. (Goodhue) Chief Financial Officer, Treasurer, and Controller.
Q. And, could you also briefly describe your duties.
A. (Goodhue) Yes. In my role, I have oversight and responsibility for the Financial, Accounting, Compliance, Budgeting Operations of the Company.
Q. And, with respect to prefiled testimony that you filed in this proceeding, gentlemen, Mr. Ware, did you file direct testimony on permanent rates in this case on May 31, 2013, that has been marked as "Exhibit 1", and

Tab 8 of Exhibit 1 being your prefiled testimony?
A. (Ware) Yes.
Q. Was that testimony prepared by you or under your supervision?
A. (Ware) Yes, it was.
Q. Do you have any changes or corrections to that testimony?
A. (Ware) No, I do not.
Q. And, if I were to ask you those same questions today, would your answers be the same?
A. (Ware) Yes, they would be.
Q. Mr. Goodhue, did you also file direct testimony on permanent rates in this case on May 31, 2013, that is Tab 9 of Exhibit 1?
A. (Goodhue) Yes, I did.
Q. Was that testimony prepared by you or under your supervision?
A. (Goodhue) Yes, it was.
Q. Do you have any changes or corrections to that testimony?
A. (Goodhue) I do not.
Q. If I were to ask you those questions today, would your answers be the same?
A. (Goodhue) Yes, they would.

MR. GETZ: Thank you.

BY MS. BROWN:

Q. Mr. Laflamme, could you please state your name and position with the Commission.

A. (Laflamme) Jayson Laflamme. I'm a Utility Analyst with the Gas and Water Division of the New Hampshire Public Utilities Commission.

Q. And, as a Utility Analyst, could you please describe your responsibilities.

A. (Laflamme) I review filings made by various water and sewer companies that are regulated by this Commission. I analyze them and provide recommendations to the Commission regarding the various filings that are made by water and sewer utilities regulated by the New Hampshire Public Utilities Commission.

Q. And, can you please explain what your area of expertise is?

A. (Laflamme) Accounting and finance.

Q. And, do your job responsibilities encompass your area of expertise?

A. (Laflamme) Yes.

Q. And, can you please describe your involvement with this docket?

A. (Laflamme) I reviewed the initial filing by Pennichuck

East Utility. I was involved in the discovery process. I reviewed the various audits that were performed relative to this docket. I participated in the Settlement Agreement that's being presented today.

Q. Are there any other books and records that you reviewed, such as annual reports?

A. (Laflamme) Yes. I reviewed the annual reports of Pennichuck East Utility.

Q. Mr. Laflamme, when you said that you "participated in the Settlement", can you please describe what that participation was?

A. (Laflamme) Those pertain to the settlement discussions with the Company, as well as putting together the actual Settlement Agreement that's being presented today.

Q. When you say "put together the Settlement Agreement", were you involved in the creation of the exhibits and schedules?

A. (Laflamme) Yes, I was.

Q. And, other than the correction that I fumbled through on the eminent domain costs, are you aware of any other changes or corrections that need to be made to the Settlement Agreement?

A. (Laflamme) No.

Q. And, I forget, Mr. Goodhue and Mr. Ware, if that question was asked of you, if you have any changes or corrections to make to the Settlement Agreement?
A. (Goodhue) We do not.
A. (Witness Ware shaking head in the negative.)

MS. BROWN: Thank you.

MR. GETZ: I had just one preliminary question each for Mr. Ware and Mr. Goodhue.

BY MR. GETZ:

Q. Mr. Ware, did you participate in the development of the Settlement Agreement on behalf of the Company, which is marked for identification as "Exhibit 4"?
A. (Ware) Yes, I did.
Q. And, the same question, Mr. Goodhue.
A. (Goodhue) I did as well, yes.

BY MS. BROWN:

Q. Mr. Laflamme, I'd like to start with you and the Settlement Agreement, and go through the specifics of what the parties are requesting. I'd like to draw your attention to Page 2, and the "Permanent Rates" section and the "Step Increase" section, if you could please explain the increase that the parties are proposing.
A. (Laflamme) The Settling Parties are proposing a permanent rate increase of $587,890, or 9.91 percent.

The Settling Parties are also proposing a step increase in the amount of $95,977, or 1.62 percent. The combined revenue increase being proposed today is $683,867, or 11.52 percent.

Q. My next question may be buried in the schedules, but the question is, with this total increase of 683,000, what is that increase the authorized revenue requirement -- or, what the revenue requirement that we're proposing the Commission approve?

A. (Laflamme) I would direct the Commissioners' attention to Attachment C, which is on Page 31 of the Settlement Agreement. And, those two increases, plus the proposed North Country Capital Recovery Surcharge amount, which will be discussed later this morning of $294,576, results in a total annual revenue requirement from all water rates of $6,913,261.

Q. Thank you. Mr. Laflamme, did you prepare Attachment A and the schedules to Attachment A?

A. (Laflamme) Yes, I did.

Q. And, can you please walk us through the derivation of the revenue requirement in this schedule?

A. (Laflamme) Yes. I would, for illustrative purposes, I would direct attention to Page 13 of the Settlement Agreement, which provides a summary of how the permanent rate increase was derived. Starting with an agreed upon rate base amount of $9,992,096, and the details of how that was calculated are on Schedule 2, applied to that amount is a rate of return of 3.69 percent, resulting in an operating income requirement of $368,270. When compared to the proforma operating income requirement -- proforma operating income, from Schedule 3, of $13,243, the result shows that PEU is under earning by an amount of $355,027. When a tax factor is applied to that, the amount of additional earnings required by PEU is indicated of $587,890.

Q. Mr. Laflamme, with respect to Schedule 2 and the rate base, was that fully audited?

A. (Laflamme) Yes, it was.

Q. And, is that audit that we've marked for identification as "Exhibit 5"?

A. (Laflamme) Yes.

Q. Okay. Thank you. If I could have you turn to Schedule 2, Attachment A, Schedule 2, which is Page 18 of the Settlement Agreement. And, there's a figure at the top "Plant in service", and there's a figure at the bottom "Total Rate Base", the numbers are different, and the revenue requirement incorporates the rate base, not the plant in service. And, can you please just explain what Staff -- or, how Staff uses the plant in service to determine the rate base?

CMSR. HONIGBERG: And, just to be clear, you're on Page 16, correct?

MS. BROWN: Sixteen, yes. Thank you.

WITNESS LAFLAMME: I'm sorry. Could you repeat the question?

MS. BROWN: Sure.

BY MS. BROWN:

Q. In the revenue requirement, you referred to a rate base as a component of the revenue requirement. Schedule 2 illustrates how you derive that revenue -- that rate base from the plant in service. And, I just wanted you to explain the adjustments and why the adjustments are made to end up with a total rate base.

A. (Laflamme) Yes. Looking at Page 16, we start with the Company's original filing, which was -- is Columns (1) through (4). The Company started with the 13-month average for the components contained within rate base. To that, the Company proposed various adjustments, and resulted in a total proposed rate base of $10,662,700. During the course of discovery, Staff and the Company and the other parties within the case came to -- came to preliminary agreement on various other adjustments that should be made to rate base, and those are reflected in Column (5), and totaled $56,465, increasing rate base further to $10,719,165.

The Company, the Staff and the OCA entered into settlement discussions. And, the results of those settlement discussions are reflected in Column (7), and resulted in a proposed decrease in rate base of $727,069, all leading to the rate base being proposed in this Settlement Agreement of $9,992,096.

Q. Mr. Laflamme, are you familiar with the concept that the Commission must determine -- or, cannot put in rates plant that's not first found to be prudent, used and useful?

A. (Laflamme) Yes.

Q. Are you familiar with that concept?

A. (Laflamme) Yes.

Q. And, so, does Staff -- how does Staff look at whether the plant is prudent, used and useful?

A. (Laflamme) The Staff -- it's done primarily through reviewing a combination of items, the reports and records on file with the Commission, the Company has to file an annual report, the Company also has to file Form E-22s with the Commission. Also, during the course of discovery, the Staff likes to get a comfort level with the used and usefulness of the plant in service. And, also, the audit that's done, relative to the Company provides assurance that the plant in service is used and useful.

Q. Thank you for that summary of the review. So, do you have an opinion as to the used and usefulness of the plant that's in this rate base?

A. (Laflamme) Yes. I believe that the plant that's reflected in rate base is used and useful.

MS. BROWN: Thank you.

(Atty. Brown conferring with Atty. Getz)

BY MS. BROWN:

Q. Mr. Laflamme, you've mentioned in your summary of the revenue requirement a rate of return of "3.69 percent". Can you please explain how that's determined?

A. (Laflamme) Yes. The calculation of the rate of return is found on Page 14 of the Settlement Agreement, and takes the financing -- the financing components of Pennichuck East, which include long-term debt, short-term debt, which is intercompany, intercompany loans, and also common equity. And, applies -- applies the cost of each of those financing components on a weighted average, and derives a 3.69 percent weighted average cost of capital. I would add that the cost of equity is a formulaic -- is derived formulaically, based on the Settlement Agreement in DW 11-026.

Q. Thank you for that explanation. Another component to the revenue requirement was the operating income, to which you made -- there are adjustments. And, let me just get to that schedule. Attachment A, Schedule 3, on Page 19, just had a question. With these adjustments that were made, do you have an opinion as to whether these adjustments were known and measurable?

A. (Laflamme) Yes.

Q. And, what is that opinion?

A. (Laflamme) They are. They are known and measurable adjustments.

Q. And, how did you determine that these adjustments needed to be made to the operating income statement?

A. (Laflamme) Well, again, similar to my previous discussion regarding rate base, Column (2) reflects proforma adjustments that were proposed by the Company in its filing. Column (4) reflects a preliminary agreement between the parties on other adjustments, which came to -- came to the attention of the parties during discovery. And, Column (6) represents adjustments resulting from the settlement discussions amongst the parties. So, it was, for the most part, the determination of whether these adjustments are appropriate, came through the discovery process, as well as settlement discussions amongst the parties.

Q. Okay. Thank you. There's another schedule, that is Attachment A, Schedule 4, it shows -- it appears on Page 23. It's entitled "Analysis of Clearing Account Adjustments". Could you just explain what this schedule intends to show?

A. (Laflamme) Yes. This relates to -- this relates to a proforma -- proforma adjustments, one proposed by the Company, which was -- and, that's the top portion. It was included in the Company's response to Staff 3-14. The bottom section refers to a Settlement adjustment, based on -- based on discovery in the case. And, essentially, what those two adjustments do is, within the Company's rate base reflected -- the Company's rate base reflected some clearing account items, which, during discovery, were found to be included in rate base in error. The adjustments reflected here remove -- remove those clearing account items from rate base.

MS. BROWN: Thank you.

(Atty. Brown conferring with Atty. Getz)

MS. BROWN: Thank you for letting me caucus, so we can smooth out our questioning.

BY MS. BROWN:

Q. Mr. Laflamme, I'm still going to continue with questions for you. In the schedules to the Settlement Agreement, there were a number of references to "CBFRR" and "NCCRS". What are those?

A. (Laflamme) Taking the "CBFRR" references first, those stem from the Settlement Agreement in DW 11-026, which was the City of Nashua's acquisition docket of Pennichuck Corporation. And, within that Settlement Agreement, there was created a unique ratemaking mechanism, which generally divided the -- or, resulted in two revenue pools for ratemaking purposes. The first revenue pool is called the "CBFRR", which means "City Bond Fixed Revenue Requirement". And, this is essentially PEU's *pro rata* share of the total annual debt service obligation associated with the City acquisition bond to acquire Pennichuck Corporation. For PEU, the amount of the CBFRR is $898,863. And, that amount will remain constant until the City acquisition bond is paid in full. And, it represents PEU's annual portion of customer rates that go towards paying down the overall acquisition bond debt.

The second revenue pool is determined based on the application of traditional ratemaking principles, with the exception that a portion of PEU's cost of service attributable to the equity capital acquired by the City on January 25th, 2012, is removed from various ratemaking elements. So, therefore, rate base is reduced by the amount of PEU's equity capital on January 25th, 2012, as well as PEU's unamortized portion of the Municipal Acquisition Regulatory Asset, or MARA, that was created by the acquisition.

With regards to operating income, the annual CBFRR revenues are removed, as well as the depreciation expense on the equity assets acquired, and the amortization expense of the MARA.

And, lastly, PEU's rate of return calculation includes the elimination of the equity acquired on January 25th, 2012. And, all these adjustments are contained in the DW 11-026 Settlement Agreement, which was approved by the Commission.

Q. Okay. Before I have you explain the "NCCRS", I'd like to just stop for a moment, because I haven't asked any questions of Mr. Ware or Mr. Goodhue for a while. And, while we're on this CBFRR, you've heard Mr. Laflamme explain this. But, I guess, Mr. Goodhue, do you have anything else to add to his explanation, to put the CBFRR in context?

A. (Goodhue) No. I think Mr. Laflamme explained quite well exactly the composition of it, the nature of it, and the dollar amount of that obligation.

Q. Okay. Mr. Ware or Mr. Goodhue, I walked -- or, Mr. Laflamme walked us through some of his calculations for -- or, the schedules for the revenue requirement. Do you any other comments at this time to make to his testimony?

A. (Ware) No.

A. (Goodhue) No.

Q. Okay. All right. Just wanted to catch that while we're on the subject matter. And, actually, Mr. Ware, if I could pick up with you. I asked Mr. Laflamme to explain the "NCCRS", but I recall you might have some history with this. So, if I could ask you to please explain it for the Commissioners on what this is.

A. (Ware) Yes, the N -- the "North Country Capital Recovery Surcharge". I won't give the initials, I'll get it wrong. But that was established as part of an order when we acquired certain utilities from Integrated and Consolidated Water Companies.

Q. Yes.

A. (Ware) And, the purpose of that surcharge is the condition of those utilities was very poor at the time of the acquisition. And, so, there was a certain amount of capital required to be invested in those utilities to bring them up to a standard similar to the other utilities they were going to be married to, in this particular case, Pennichuck East Utility. And, so, rather than distributing the cost of those upgrades across all of Pennichuck East's customers, the specific upgrades, again, to bring them up to the standard of the other -- roughly, of the other PEU companies, were incorporated in the form of a surcharge to each one of the customer groups. So, there were specific improvements made in the Birch Hill water system, in the Locke Lake water system, and in the Sunrise Estates water systems. Specific to those systems, necessary to get a certain level of service established, the cost associated with those improvements is reflected in the Capital Recovery -- North Country Capital Recovery Surcharge. So, we spent a certain amount of money. And, the recovery of that money is the equivalent of, really, a mortgage-style payment through rates as a separate surcharge in each one of those systems, where the customers pay their share of those improvements.

Q. Mr. Ware, at the time that PEU acquired Birch Hill, Locke Lake, and Sunrise Estates -- or, Sunrise Lake Estates, was PEU on a consolidated tariff?

A. (Ware) Yes, they were.

Q. And, does a consolidated tariff mean that all of the systems share the same rates?

A. (Ware) Correct.

Q. And, would it have been that, but for this Capital Recovery Surcharge for these North Country systems, so-called, would the other customers have significantly subsidized?

A. (Ware) That is correct. That was the concern that emanated as part of the process. That, again, the initial investment being significant to bring up the level of service was going to create a significant amount of subsidization from the other customers of Pennichuck East, if the surcharge was not adopted, but instead the cost, that 300 plus thousand dollars, had to be recovered through all the other customers, rather than just North Country customers.

Q. Mr. Laflamme, I just want to turn back to you on the North Country Capital Recovery Surcharge. And, could you just explain why the adjustments to the revenue requirement schedules, why there's an adjustment for this North Country Surcharge?

A. (Laflamme) Yes.

Q. Thank you.

A. (Laflamme) Similar to the CBFRR adjustments that I previously discussed, those elements associated with the calculation of the North Country Capital Recovery Surcharge are removed from PEU's cost of service for purposes of applying the traditional ratemaking principles in determining the general customer rates. Rate base is reduced by the assets associated with the determination of the Capital Recovery Surcharge. Operating income is -- from operating income, the Capital Recovery Surcharge revenues are eliminated, as well as the depreciation and the amortization expense associated with the Capital Recovery Surcharge assets. And, the rate of return is adjusted in order to eliminate the portion of PEU's debt associated with the acquisition of the Capital Recovery Surcharge assets.

Q. Mr. Laflamme, do you have an opinion as to whether this CBFRR and this North Country Capital Recovery Surcharge are unique items when you look at traditional ratemaking for revenue requirement?

A. (Laflamme) Yes. They are unique.

Q. Thank you. There were a number of adjustments, in addition to the CBFRR and the North Country Surcharge, that were made in these schedules. Are there any ones that you consider to be significant that you want to bring to the Commission's attention?

A. (Laflamme) Yes. There are two adjustments I'd like to draw the Commission's attention to, just relative to the magnitude of those adjustments. Referring first to Page 18 of the Settlement Agreement. I'm sorry, Page 17 of the Settlement Agreement. Adjustment Number 6, that adjustment reduces rate base by an amount of $711,752, and relates to certain plant assets that the Company classified as "non-revenue producing". In the course of settlement discussions, the parties agreed that that -- that those particular assets, for purposes of settlement, should not be classified as "non-revenue producing". And, therefore, a portion of the adjustment proposed by the Company has been eliminated.

And, this issue and concept of "non-revenue producing assets" is going to be discussed further subsequently this morning as part of Section D. But I just wanted to bring that to the Commission's attention now.

The other -- the other item is found on Page 20 of the Settlement Agreement, and pertains to

Adjustment Number 18, "Property Tax Expense". During the course of discovery, it was found that, during 2013, which was the year subsequent to the test year utilized in this case, that the Company's property tax expense increased significantly. So, therefore, the parties agreed that proforma property tax expense should be increased by $44,806, in order to bring the property tax expense level up to the amount the Company incurred during 2013.

Q. Thank you, Mr. Laflamme. What was the test year?

A. (Laflamme) 2012.

Q. So, these proforma for the taxes was using 2013 data, is that right?

A. (Laflamme) Correct.

Q. Mr. Laflamme, there are a number of references in the adjustments in these schedules to the Staff Audit Report. Do you have an opinion as to whether the issues that came -- that were cited by the Audit Staff in the Audit Report, whether they have been fully resolved in the Settlement Agreement?

A. (Laflamme) Yes.

Q. And, what was --

A. (Laflamme) They have been.

Q. Okay. I suppose it would be only fair, where I had Mr.

Laflamme talk about significant adjustments, Mr. Goodhue and Mr. Ware, do you have any adjustments that you wish to note for the Commissioners?

A. (Goodhue) No, we do not.

A. (Witness Ware shaking head in the negative.)

MS. BROWN: Okay. I'd next like to turn to the step increase issue. But I think I'll -- Attorney Getz had a few questions to start that subject off.

MR. GETZ: Thank you.

BY MR. GETZ:

Q. Since Mr. Laflamme has done such a thorough job of explaining the basis for the permanent rates that are the subject of the Settlement Agreement, I only had one question I wanted to ask of Mr. Ware. And, that's with respect to the step increase. And, Mr. Ware, if you could just address the nature of the capital investments that are the subject of Mr. Boisvert's testimony, which has been marked for identification as "Exhibit 3".

A. (Ware) Sure. There were four major projects that were initiated and completed in 2013 that involved significant investment of capital by the Company, in terms of, again, keeping customer service at an appropriate level. So, the first of the projects was the Locke Lake -- what was referred to as "Locke Lake Dam Site Road Area Phase 2 Main Replacement". That's a mouthful. And, that involved the replacement of approximately 6,800 lineal feet of small diameter pipe. The Locke Lake system, when it was constructed, was not constructed with materials that meet the standards of the American Water Works Association. Had a lot of leakage and unaccounted for water. And, so, the Company has a plan over about a ten year period to replace the piping in that system. There's approximately 13 miles worth of pipe in the system that needs to be replaced. So, that was the first project, at a cost of roughly $400,000.

The Company also invested in a total of eight emergency generators at various locations throughout the Pennichuck East systems. And, the Company's goal, going back to the ice storms and wind storms and snowstorms that created significant power outages back in I think it was 2011 and '12 or '10 and '11, was that most of these small systems did not have emergency power generation. And, so, when power went down, these water systems were immediately without water. And, so, as many customers expressed to us "Gee, we have our own generator, we can create our own power at home, but we have no way to produce water." So, we, you know, concurred with that. And, over time, we have invested such that, you know, at the completion of this coming year, all of our systems, subsystems, where the loss of power would result in a loss of water, will have emergency generators. So, that was a major portion of work.

We also had a project, which was the complete rebuild of a 1960s community water system station. Community water system station usually incorporates storage of the water that's coming from the wells, treatment of the water that's coming from the wells, and then pumping of the water coming from the wells out into the distribution system. And, again, this facility was constructed in the 1960s, had reached a point where the building was in poor condition, the tanks, which are underground and steel, had gone through their useful lives. And, water quality was a challenge, as it is with a lot of New Hampshire groundwater. And, so, the rebuild involved new storage, new building, new treatment for hardness and iron and manganese, and also the addition of an emergency generator, to ensure a continuity of service.

And, the last of the projects was a

small project for a little system that we took over that was in distress, called "Northern Shores", that's in Tilton. And, again, we put a generator in there, and we installed treatment, in order to, again, bring that system up to a level of service that was acceptable.

Q. And, Mr. Ware, could you also explain how these types of investments relate to investments that would be eligible under a WICA mechanism, and what the Company's position with respect to WICA is, a WICA is for PEU?

A. (Ware) Sure. We do not have a WICA for PEU, nor are we recommending one in the projects that we talked about. Typically, a WICA is -- it's a "Water Infrastructure & Conservation Adjustment". And, typically, what we're talking about, those sorts of projects are pipeline-related. We hear about, you know, the country's aging infrastructure, a lot of water mains that are 100, 120, upwards of 150 years old, that are reaching the end of their life and need to be replaced.

In Pennichuck East, most of these systems were developer systems that were constructed in the 1960s, 1970s, and 1980s. So, the infrastructure relative to pipe is fairly young. While some of the buildings, as we described, or treatment needs have changed, because of changes in the Safe Drinking Water Act, they don't fall into the category of what's considered to be "WICA projects". So, the types of projects we expect in PEU, a continuation of those projects I just discussed on a going-forward basis, wouldn't qualify for a WICA. And, so, again, it's not something that we would seek.

But, again, as projects go, you know, over time, year in and year out, these are projects, again, where the Company invested over a million dollars within 12 months of the end of the test year. And, very important that we have an opportunity to recover on that investment in the form of a step.

MR. GETZ: Thank you.

BY MS. BROWN:

Q. Mr. Ware, do you have in front of you Exhibit 6? It's the Final Audit Report for the step increase, dated March 14th?

A. (Ware) I will in one minute. Yes, I do. Thank you.

Q. Was this audit done of the projects that you just described?

A. (Ware) Yes, it was.

Q. And, are there any other others in here? Does looking at this document refresh your recollection of the list that you just gave us?

A. (Ware) Oh.

Q. I just wanted to give you an opportunity, if there were other projects to bring to their attention.

A. (Ware) Well, I think, you know, so, I mentioned the Locke Lake Project, the Northern Shores Project, the Liberty Tree Project, and then the generators. Specifically, like I said, there were eight of them. And, they mentioned one in particular in here, which is the Hardwood Project. But there were also seven other generators that were part of and are incorporated in the step that are not mentioned in the audit.

Q. Good to know. Thank you. You said there were seven other generators?

A. (Ware) There was a total of eight generators that were incorporated as part of the step, based on Mr. Boisvert's testimony. They were located in the Pine Haven community water system in Londonderry; the Hardwood system, which is mentioned in Windham; the Sunrise Estates system in Middleton; the Shaker Heights system in Chester; the Gage Hill system in Pelham; the Forest Hills system in Londonderry; the Farmstead system in Derry; and the Beaver Hollow system in Sandown.

Q. Thank you. Do you have any opinion, Mr. Ware, on whether the plant that's subject to the step increase is used and useful?

A. (Ware) Yes. It is all used and useful.

Q. And, Mr. Laflamme, do you have an opinion as to the plant that's in the step, whether that is used and useful?

A. (Laflamme) Yes. Based on the discovery in this case, and the audit that was specifically -- which specifically examined the elements contained within the step, I believe that those -- all of those items are used and useful.

Q. Thank you. Mr. Laflamme, if I could just have you briefly summarize how you determine, I'm going back to your testimony earlier that you had created these schedules, is that correct?

A. (Laflamme) Uh-huh. Yes.

Q. So, if you could turn your attention to Page 27 in the Settlement Agreement, it's Schedule B -- I'm sorry, Attachment B, Schedule 1. That is the Step Adjustment Calculation Summary?

A. (Laflamme) Yes.

Q. Can you just please summarize how you derive the proposed step adjustment?

A. (Laflamme) Yes. The projects just described by Mr. Ware resulted in a net increase in rate base of $1,087,491, to which a rate of return of 3.19 percent was applied. That rate of return was calculated on Schedule 2 of Attachment B, resulting in an increase -- a step increase in the revenue requirement of 34,000 -- I'm sorry, an increase in the operating requirement of $34,685. The plant in service from the step is also going to generate additional income tax expense of $158, additional depreciation expense of $32,313, and an additional property tax expense of $28,821. All told, the proposed step adjustment is $95,977.

Q. Thank you. I just have a basic question, Mr. Laflamme, about the revenue requirement and how that impacts the North Country Capital Recovery Surcharge. Can you just explain whether the proposed revenue requirement, and I should probably add into this question the step, how do they impact, if they do impact, that Capital Recovery Surcharge for those customers?

A. (Laflamme) The permanent rate increase and the step increase being proposed today do not impact the North Country Capital Recovery Surcharge. North Country Capital Recovery Surcharge is a separate item, and is not impacted by either of the -- either the permanent increase or the step increase.

Q. So, I just want to reiterate. So, when the parties are proposing a 9.91 percent increase to the permanent rate, and then a step increase of 1.62, those percentages are not increasing the North Country Capital Recovery Surcharge, correct?

A. (Laflamme) That is correct.

Q. Yes. But, while we're on that North Country Capital Recovery Surcharge, let's turn to that section, because there is an adjustment in this proceeding, on Page 9 of the Settlement Agreement. And, well, maybe I should go back to Mr. Ware first, just to get into this subject. Mr. Ware, are you at Page 9 of the Settlement Agreement?

A. (Ware) I am.

Q. And, the bottom part of the paragraph discusses a customer count change, and doesn't give the actual customer count change, but it gives the change in the rate. Can you just explain what's going on here?

A. (Ware) Yes. As we discussed the North Country Capital Recovery Surcharge, it is a fixed amount that we need to recover over a 30-year period, regardless of the number of customers. So, in this case, it was agreed, when the charge went into effect, that at each rate case we would take that fixed amount and divide it by the number of customers who were receiving service from that system at that time. In the case of Birch Hill, Locke Lake, and Sunrise Estates, there has been a slight increase in the number of customers over the original calculation. Since the number of customers is in the denominator of the calculation, it's the total amount recovered by the system divided by the number of customers, the required Capital Recovery Surcharge that shows up on each bill went down slightly in each one of those communities, again, reflective of the slight increase in the number of customers.

Q. Perfect. Thank you. And, would you also agree with Mr. Laflamme's testimony that the percent rate -- permanent rate increase and the step increase do not change this North Country Capital Surcharge?

A. (Ware) Yes. I would agree with that.

BY MR. GETZ:

Q. Mr. Ware, I'm going to turn to Page 3 of the Settlement Agreement, Section B. And, could you please summarize the agreement with respect to the effective date for permanent rates and for the step increase?

A. (Ware) Yes. It was agreed that the permanent rates would become effective for service rendered on or after

July 1st of 2013. And, that there would be a reconciliation mechanism or a recoupment between the temporary rates that were established in the fall of last year and the rates that have been collected since July 1st, 2013, through the final order. And, what we agreed to was that, within 30 days of the final order being issued, that we would provide, in the form of a filing with the Commission, calculations of the rate recoupment that would be associated with the recoupment of the difference between the temporary and the permanent rates, based on actual customer usage between July 1st, 2013 and the date of the order.

Relative to the step increase, it was agreed the step increase would become effective for service rendered on or after the date of the Commission order in this case.

And, we agreed that, as part of this, that we would be filing a compliance tariff to supplement the approved surcharge relating to the recoupment, and that that would include a calculation of the average monthly surcharge for each customer based on their individual usage.

MR. GETZ: Okay. Thank you.

BY MS. BROWN:

Q. Mr. Laflamme, with respect to the temporary/permanent recoupment filing Mr. Ware explained, can you please explain what Staff will do, once it receives that filing?

A. (Laflamme) Staff anticipates that it will be reviewing PEU's filing. And, we'll be making a recommendation to the Commission concerning that filing for the Commission's approval.

MS. BROWN: Thank you.

(Atty. Brown conferring with Atty. Getz)

BY MR. GETZ:

Q. Mr. Goodhue, turning to Section C of the Settlement Agreement, on Page 4, would you please describe the agreement with respect to the valuation of the equity-related issues, including the determination of the return on equity?

A. (Goodhue) Yes. The Settlement resolves two ambiguities that arose during the discovery process. For this and future proceedings, the value of the common stock at the time of the merger, which was $100 for Pennichuck East Utility, $100 for Pittsfield Aqueduct Company, and $30,000 for Pennichuck Water Works, shall be treated as an equity-related item under the acquisition Settlement Agreement and removed from the computation of the revenue deficiency.

In addition, the rate of -- the ROE will be equal to the average of the most recent 12 months of the 30-year U.S. Treasury bond interest rates that are available at the time of the filing of a rate case, plus a 3 percent factor.

Q. Thank you. Okay. Also, then, back to you Mr. Ware, turning to Section D of the Settlement Agreement, beginning on Page 5, would you summarize the agreement of the parties with respect to the treatment of non-revenue producing assets?

A. (Ware) Yes. For as long as I have been involved with the Company, in rate cases, there was always a request by the Company for a year-end rate base treatment versus a 13-month average rate base treatment associated with non-revenue -- what we coin "non-revenue producing assets" that were placed into service during the test year. And, so, the definition of what a "non-revenue producing asset" was is -- was often a point of discussion. And, the purposes of the agreement was, in an effort to wrap a clearer definition around what a "non-revenue producing asset" is, so that, you know, when we did our filing, we would be able to know what sorts of projects would qualify for that non-revenue producing treatment, and not put in projects that might not qualify. So, we agreed on basically four points of measurement, in terms of whether a project was considered to be "non-revenue producing".

The first was, the project was a result of a regulatory mandate or it was associated with a coordinated project with a local municipality where sewer or drain construction work was being completed that necessitated the relocation or a replacement of the water main.

Second of all, it was agreed that these types of projects were not ones that would result in additional revenue. There is occasionally small amounts of revenue generated as these types of projects are done. And, it was agreed that, as long as the revenues that were generated by the projects were less than 1 percent of the project's total cost, that it could be treated as "non-revenue producing". That being said, if they do generate, say, half a percent of the project cost as new revenues, it was agreed that those increased revenues would be proformed out of the revenue requirement.

Thirdly, we looked size of project, and

we agreed that we needed a measuring line as far as the size of the project. And, so, we agreed that we would only file for projects where the expended cost exceeded one and a half times the E-22 filing requirement. In the case of Pennichuck East, the E-22 filing requirement is for projects in excess of $30,000. So that we agreed, in this case, we would only file for non-revenue producing projects where the project cost exceeded $45,000.

And, lastly, it was agreed that the projects that we were filing for non-revenue producing would have to be used and useful by the end of the test year. And, again, the concept is that those projects typically would have been treated using a 13-month average. But, if the projects meet the criteria of a non-revenue producing project, that we would, instead of utilizing for purposes of rate base and expenses the 13-month average, we would be using the year-ending -- test year-ending rate base value.

MS. BROWN: Commissioners, I'd like to make a note that, in the next hearing, PAC and PWW, we will be asking that this testimony that you've just heard, regarding Section C and Section D, that they will be, you know, we will be continuing on in these sections. This is the start of the testimony that we're going to want to have administrative notice taken of.

CHAIRMAN IGNATIUS: All right. So, let's just be clear. I think earlier you had said it was just Section C. But it's really Section C, D, is it also E and F?

MS. BROWN: It is all the subjects from the -- yes, C, D, E, F, or the MARA, F. The clarifications regarding DW 11-026, through eminent domain through MARA. Those are the subjects.

CHAIRMAN IGNATIUS: All right. Thank you.

BY MS. BROWN:

Q. Mr. Laflamme, with respect to Page 4 of the Settlement Agreement, Paragraph C, the clarifications, and you heard Mr. Goodhue explain the valuation of equity-related items, and then the determination of return of equity. Was there any other point that you wanted to bring to the Commission's attention?

A. (Laflamme) No.

Q. Okay. And, with respect to the treatment of non-revenue producing assets that Mr. Ware explained, did you have any other clarifications?

A. (Laflamme) Just that, with regards to the -- if an asset is deemed to be "non-revenue producing", not only will the plant in service be treated at year-end value, but also the associated accumulated depreciation will be at year-end value, as well as any potential contributions in aid of construction and the amortization of which will also be treated at year-end value, rather than the 13-month average.

Q. Good point. And, I see that in the Paragraph 4. Thank you for that clarification. Mr. Laflamme, with respect to the eminent domain costs, can you please, I don't have the audit in front of me of the eminent domain costs, but some of these costs were disallowed. And, I just wanted to summarize what the general nature of the disallowance items were.

A. (Laflamme) Yes. The eminent domain, this particular section stems from, again, the DW 11-026 Settlement Agreement that was approved by the Commission. And, in that agreement, the City of Nashua was allowed to recover from PWW, PEU, and PAC, up to $5 million in eminent domain costs that it incurred from January 1st, 2002 through August of 2009. And, the amount proposed by the Company -- or, by the City relates to the page -- is found on Page 40, Attachment D, of the Settlement Agreement, the amount proposed for recovery was $4,948,322. The Audit Staff reviewed those costs, and, in its Audit Report, which is Attachment D, recommended the amended amount of $490,090 to be disallowed, leaving an amount -- a recoverable amount of $4,458,232.

Q. Thank you, Mr. Laflamme. I'd like to move on, Mr. Laflamme, to the MARA, the Municipal Acquisition Regulatory Asset, I could at least get that acronym. And, I believe you have a schedule for the MARA. Well, I'll just ask my question. You reviewed the audit of the MARA, is that correct?

A. (Laflamme) That is correct.

Q. And, were there any edit or changes that they made that you wish to bring to the Commission's attention on the MARA?

A. (Laflamme) Not with regard to the MARA audit.

Q. Okay. All right. Mr. Goodhue, do you have any comments on the MARA provision in the Settlement Agreement?

A. (Goodhue) Well, the MARA is the Company's *pro rata* share of the acquisition premium resulting from DW 11-026, relative to the City's acquisition of the Pennichuck Corporation and its subsidiaries.

Q. Fairly straightforward. Thank you.

(Atty. Brown conferring with Atty. Getz)

BY MR. GETZ:

Q. Mr. Ware, if I could turn your attention to Sections G and H of the Settlement Agreement, which are on Pages 8 and 9. Would you please describe the agreement with respect to rate design, and then summarize the rate impacts from the Settlement Agreement.

A. (Ware) Yes. As part of the rate case filing, the Company hired a cost of service expert, who completed a cost of service study, in order to determine the appropriate allocation of cost recovery amongst the two primary classes of customers, General-Metered and Fire Protection. And, as you can see, as part of that rate design, there was a slight shift from the current recovery from General-Metered and Fire Protection -- or, excuse me, from the prior to the current, with the General-Metered rate picking up a slightly greater percentage of the revenue requirement, and the Fire Protection going down slightly. The Staff, the OCA, and the Company concurred and agreed with the adoption of the proposed derivation of revenues as detailed in the Agreement.

And, relative to the rate impact of the permanent increase of 9.91 percent, for purposes of the average residential customer with a 5/8ths inch meter, who uses 7,700 cubic feet of water a year, their average annual bill will be approximately $676, that's an increase of $46.98 per year, over the prior rates, or $3.92 per month.

When you then implement on top of that the step increase, the step increase would result in an additional revenue requirement of another $9.93 per year. And, again, that amount of increase is for the single-family residential 5/8ths inch meter using the 7,700 cubic feet. So, the step increase revenue requirement would generate the need for an additional $9.93 from each one of those customers per year, or about 83 cents per month.

BY MS. BROWN:

Q. Mr. Ware, if I could continue with you. On Pages 49, 50, 51 of the Settlement Agreement, there are Reports of Proposed Rate Changes?

A. (Ware) Yes.

Q. Now, the overall revenue requirement increase is a 9.91, is that correct?

A. (Ware) Yes.

Q. But is that 9.91 applied to all customer classes?

A. (Ware) It varies with a customer class based on the results of the cost of service study. As I indicated, there was a slight shift in where the total revenue requirement was being recovered amongst the different customer classes. As a result, the different customer classes see different percentages of increase.

Q. Okay. If I could just have you take a look at, on Page 49, which is the Report of Proposed Rate Change for the permanent rates.

A. (Ware) Yes.

Q. If you look at "Public Hydrants", and go across to the right, you see "122 percent increase". Is there -- do you have an explanation for that bump?

A. (Ware) I do not have the detail to give you that right off the top of my head. But that, again, was the result of the cost of service study, indicating that the revenue requirement from public hydrants would be on the order of $53,060.

Q. Mr. Ware, are there some systems that are getting public fire that hadn't received public fire in the past?

A. (Ware) Yes.

Q. So, they would be --

A. (Ware) A part of those additional revenues would be the fact that there had not been revenues collected from those particular customers. And, some of those customers didn't exist at the time of the last rate case.

Q. So, would those facts skew or, I guess, artificially inflate this 122 percent or show a higher percentage than a 9.9?

A. (Ware) Yes.

Q. So, when I go to Page 51, which is the combined permanent and step impacts to the customers, and there's a 126 percent increase again, would a distinguishing fact be that some customers had not received fire protection in the past?

A. (Ware) That is correct.

Q. Okay. Mr. Laflamme, just a question to you to wrap up. The "Rate Case Expense Surcharge" portion of the Settlement Agreement, I think it's self-explanatory that the Company is going to be making a filing. But can you please explain what Staff will be doing, once it receives that filing?

A. (Laflamme) Staff will be reviewing the filing that will be submitted by the Company. And, we anticipate that the Company will also provide copies of the invoices which support its rate case expense proposal. Staff will be reviewing that detail, as well as the overall calculation, and will be submitting a recommendation to the Commission for their approval.

Q. Okay. Mr. Ware, with respect to the rate case expenses, does PEU have -- or, does it take advantage of competitive bidding on some of its expenses generally?

A. (Ware) Yes. As part of the process, we went out for proposals for the cost of service expert, and also for the legal services associated with the case.

Q. Thank you. Mr. Laflamme, with respect to the customer rates that arise from the revenue requirement, do you have an opinion as to the just and reasonableness of the rates?

A. (Laflamme) Yes. Staff believes that the -- that the rates resulting from the revenue requirements being proposed today result in just and reasonable rates.

Q. Mr. Goodhue, do you have an opinion as to the just and reasonableness of the customer rates proposed in the Settlement Agreement?

A. (Goodhue) Yes. I would concur with what Mr. Laflamme just said, I do feel that --

Q. And -- I'm sorry, I didn't mean to cut you off.
Mr. Ware, do you have an opinion?

A. (Ware) Yes. I believe that the Settlement Agreement results in just and reasonable rates.

MS. BROWN: The Company and Staff are finished with their direct. Thank you.

CHAIRMAN IGNATIUS: Thank you. Ms. Hollenberg, do you have questions?

MS. HOLLENBERG: I do. I do have a few questions, probably less than ten questions.

CHAIRMAN IGNATIUS: All right. Let's go off the record one second.

(Brief off-the-record discussion ensued.)

CHAIRMAN IGNATIUS: All right. Back on the record. Let's take a short break for the court reporter. And, we'll get our files, so that we're ready to roll for the next one, when we're done with this hearing. All right. So, let's take a break until ten of 11:00.

(Recess taken at 10:41 a.m. and the hearing resumed at 10:55 a.m.)

CHAIRMAN IGNATIUS: So, we are back with questioning from the Consumer Advocate's Office, and then maybe some questions from the Commissioners.

MS. HOLLENBERG: Thank you. Yes.

CROSS-EXAMINATION

BY MS. HOLLENBERG:
Q. First, Mr. Ware, if you could please turn to Page 49 of Exhibit 4, which is the permanent rate/step adjustment Settlement Agreement please.
A. (Ware) Yes.
Q. The Settlement Agreement references an increase of "9.91 percent", yet this Schedule F, the total increase is reflected as "9.92 percent". Could you please explain why those are different.
A. (Ware) There is, in the calculation of the percentage, the rounding issues that tend to happen with Excel. The total revenue requirement is the same, but, when you calculate the percentage increase, and then average it, you get a rounding discrepancy.
Q. Thank you. Mr. Laflamme, if you could -- you testified earlier about the CBFRR and the North Country Surcharge being "unique ratemaking mechanisms". Do you recall that?
A. (Laflamme) Yes.
Q. You also testified about the MARA, the Municipal Acquisition Regulatory Asset, which Mr. Goodhue described as the recovery of acquisition premium as a result of the City's acquisition of the Pennichuck Corporation. Do you recall that?

A. (Laflamme) Yes.
Q. Would you agree that the MARA is also a unique ratemaking mechanism?
A. (Laflamme) Yes.
Q. And, is that because typically utilities do not recover from customers the acquisition premiums associated with their acquisition?
A. (Laflamme) Not typically.
Q. They don't typically recover those?
A. (Laflamme) They don't typically recover them, no.
Q. Thank you. And, staying with you, just a couple of questions about the North Country Recovery Surcharge. Do you agree that a feature of that North Country Surcharge calculation is that the Company does not recover a return on equity related to that acquisition of those assets?
A. (Laflamme) That is correct.
Q. They only earn a return on the cost of debt associated with acquiring those assets, is that correct?
A. (Laflamme) That is correct.
Q. Thank you. And, when you described that North Country Surcharge as "unique", would you agree that it is unique because typically utilities recover their costs through single tariff rates?

A. (Laflamme) I would agree with that, yes.
Q. Thank you. Mr. Ware, for the purpose of recalculating the North Country Surcharge at each rate case, do you agree that the purpose of doing that is so that the cost of the investments serving the customers in those three systems are recovered from all the customers that receive service in those three systems?
A. (Ware) Yes.
Q. And, in doing that recalculation, we capture the growth in customers between rate cases?
A. (Ware) That is correct.
Q. Thank you. Mr. Ware and Mr. Laflamme, do you agree that the rate increase proposed, which includes both a permanent rate increase and the step increase, are slightly less than what the Company proposed in its initial filing?
A. (Laflamme) Yes.
A. (Ware) Yes.
Q. And, that the last rate case for PEU was DW 07-032, is that correct?
A. (Ware) Yes.
Q. And that, in that rate case, there was a 2006 test year, is that correct?
A. (Ware) That is correct.

Q. And, Mr. Laflamme, one of the ways that I looked at this case, because it is a unique case, rate case, is that we were calculating -- we were calculating the revenue requirements in four -- in at least four different ways, and let me see if you agree with this. One way was through the CBFRR, which calculated the revenue requirement on assets pre-acquisition by the City, according to the Settlement Agreement and order in DW 11-026. Do you agree with that?
A. (Laflamme) Yes. But the CBFRR was a predetermined amount.
Q. Okay. Another way that we were calculating the revenue requirement was on assets and operating expenses not included or covered in the CBFRR that have been incurred since the time of the acquisition. And, that was done through a traditional revenue requirement calculation. Do you agree with that?
A. (Laflamme) Yes. With regards to the assets and operating -- operating activity that aren't part of the CBFRR, that would be -- that would be a separate revenue requirement calculation.
Q. And, the third would be another traditional revenue requirement calculation for purposes of the step increase, is that correct?

A. (Laflamme) That is correct.

Q. And, then, lastly, as determined in DW 08-052 and DW 09-051, the North Country Surcharge was another calculation that was predetermined in those dockets, but impacted in this case, is that correct?

A. (Laflamme) That is correct.

MS. HOLLENBERG: Okay. Thank you. I have no other questions. Thank you.

CHAIRMAN IGNATIUS: Thank you. Commissioner Scott.

CMSR. SCOTT: Hello and good morning.

WITNESS WARE: Good morning.

WITNESS GOODHUE: Good morning.

WITNESS LAFLAMME: Good morning.

CMSR. SCOTT: I think it's still morning. Yes, it is. Just a few clarification questions.

BY CMSR. SCOTT:

Q. I know, Mr. Ware, I think Attorney Brown asked you about Page 9 of the Settlement Agreement, at the bottom, talking about the "North Country Capital Recovery Surcharge". I just want to make sure I understood the answer. So, the italicized language talks about that the surcharge is tied to the number of customers. So, has there been a decrease in the number of customers in those service areas?

A. (Ware) No. There's been an increase. So, the formulation of the per customer count is the amount of capital or revenue that we need to require each year to service the debt. That's fixed for 30 years. And, then, that's divided by the number of customers who are receiving service. So, I believe, in Sunrise Estates, we had 80 customers or 79 customers when the case was first filed; I think there are 81 now. So, when the number of customers goes up, the numerator is fixed, that means that, as you see here, each one of the monthly surcharges is coming down just slightly, because there has been a slight increase in the number of customers in each one of those systems.

Q. That makes sense. Thank you. That's helpful. So, on the topic of number of customers, for PEU as a whole, can you characterize, is there a growth in the number of customers generally?

A. (Ware) Since the last rate case?

Q. Yes.

A. (Ware) Yes.

Q. Can you characterize, I'm just curious to get an order of magnitude, how --

A. (Ware) Well, there's been a number of moving parts.

The last case, the North Country facilities, which is around 1,100 customers, were not part of PEU. So, we had roughly 46 to 4,700 customers in the 2006 filing, add in the 1,100, that's about 5,700, and we're currently at a little over 7,000 customers. So, over a six year timeframe, seven year timeframe, there's been roughly a 1,300 customer increase.

Q. Okay. But most of that's from acquisitions, not from new customers?

A. (Ware) Correct. Correct. Most of it is acquisitions. There's a small amount of organic growth in some of the systems in Londonderry and Litchfield. But most of the systems were acquired, they're a fairly static subdivision with a fixed number of customers.

Q. So, on that same topic, moving forward, in the next three years, do you expect that -- it sounds like you expect maybe a small amount of growth for new customers, does that sound right?

A. (Ware) We would expect to continue to see growth in certain areas where we have the entire franchise, and the system has the ability to grow and expand. The Pelham area, the Litchfield area, the Londonderry area and the Windham area are the areas where that exist.

Q. And, I was curious, for water use, what's the trend on water use?

A. (Ware) Water use continues to trend down on the residential level.

Q. Okay. And, on the commercial level, do you have any large customers that are anticipated?

A. (Ware) PEU is primarily residential customers. There are a small amount of commercial customers. I can't, off the top of my head, tell you what's happened relative to the mix of commercial customers, and whether there has been an increase or decrease in that customer class for consumption.

Q. That's fair. Thank you. And, on Exhibit 1, your testimony, which is Tab 8, I believe, on Page 7, you reference changes in the "number of periodic tests". I was just curious if you could elaborate on that for me?

A. (Ware) Sure. Periodic tests are those that are required for purposes of testing the accuracy of the meters. And, the frequency of testing varies with the size of the meter. The schedule established by the American Water Works Association are recommendations, which is adopted by the Public Utilities Commission. We are now doing the testing that's required.

Prior, and there was an agreement back, after we took over the system, that we needed to go to monthly reads, when we did that, we went to radio reads, which freed up staff to allow us to do the periodic tests. So, what we didn't want to do and what we did not do was hire the staff to do the required periodic tests, when we acquired PEU, knowing that we were going to convert to radio reads and suddenly have free staff that we then would have had to lay off. So, there was a period of time where we weren't doing the periodic tests, because we knew this transition and efficiencies was going to happen that would allow us to retain the staff that used to do the reading, we were reading at a rate of roughly 230 meters a day. We're now reading at a rate of between 8 and 10,000 meters a day.

Q. Hmm.

A. (Ware) And, so, again, it freed up the staff that now allows us to get in and do approximately 800 periodic tests a year in the PEU system.

Q. Thank you. And, are all the PEU customers metered?

A. (Ware) Yes.

Q. Okay. So, you have no unmetered portion. Excellent. And, I'm not sure if Mr. Ware -- whoever is most better to answer this question. So, the request for permanent rate increase is to be effective 1 July 2013, correct?

A. (Ware) Correct.

Q. Has there been some kind of notification to customers, so they know that?

A. (Ware) There was initial notification of the rate case. I know there will be notification, you know, once the case is finalized, yes. And, when we issued the temporary rates, at that stage, there was information given to the customers relative to the temporary rates, and the fact that there would be permanent rates that would be reconcilable back to July 1st, 2013.

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

CHAIRMAN IGNATIUS: Thank you. Commissioner Honigberg.

BY CMSR. HONIGBERG:

Q. I need to -- I want to go back to the public hydrants spreadsheets that are 49, 50, and 51. I did not understand the issue.

A. (Ware) All right. So, I guess the best way to try to explain this. In PEU, there are subdivisions that have fire protection, I'll use, as an example, Thurston Woods, in the Town of Lee, has 34 customers, and there's fire protection. The Town of Lee -- normally, fire protection is paid for at the municipal level through the tax base. But, in the case of Lee, and Windham, and other communities, the communities have said "Look, there's so few customers within this community who benefit from this, we're not going to pay for it through the tax base. It needs to be paid through the water rates directly." And, so, there are a series of communities where the fire protection, what we term "public fire protection", is paid for through the rates. The municipal is paid for by the municipality and collected through the tax base. The change that happened between 2006 and the present was that there were a number of acquired systems that have "public fire protection" that were not in effect in 2006. So, there would have been no revenues from those systems in 2006. There are now revenues from those systems. So, the increase is due of the revenues collected from that area is the fact that there are more customers now active where we can collect those revenues from.

Q. So, in terms of what's actually on the spreadsheets, if you just look at, I'm still on Page 49, for example, where the columns that are headed "Present Rates" and "Proposed Rates", the numbers that are below that don't actually show rates, they show dollars generated at rates for the number of customers in the "Average Number of Customers" column?

A. (Ware) Yes. And, again, in the case of the public fire protection, those systems that were added since 2006, there was no mechanism in the tariff to collect revenues from them. So that they have been receiving that fire protection at no cost. Now, we have an opportunity through this rate case to tariff a fee for the provision of the fire protection, and that's why, again, the increase in revenues.

Q. And, so, the reason why there's no number shown under "Average Number of Customers" on Page 49, is that it's actually two different numbers for the two columns?

A. (Ware) Correct.

Q. And, so, the rate -- the rate that is not shown on this, in this spreadsheet, but is embedded somewhere in the formulas, is different for the two columns, correct, because you've got new rates, that's why your generating more revenue under the proposed rates?

A. (Ware) In the public fire protection area, there is a new rate, and it's applied to more customers.

Q. And, so -- I think I got that. So, the "122 percent" there in the far right, that's a change in dollars, not a change in rate?

A. (Ware) Correct.

Q. On the next spreadsheet, on Page 50, you do show a number of customers. And, I think maybe I know why, but I'm not sure. So, I'll ask you, why are you able to show a number of customers on Page 50, but not on Page 49?

A. (Ware) I cannot tell you why we did not show the number of customers in 49 versus 50.

Q. No, I think I know why you didn't on 49. I think you didn't because it's two different numbers for the two different columns following. You could have done it in a different way. But I think the way you chose to do it was to leave a blank there.

A. (Ware) Yes. And, this is the step increase, I'm sorry.

Q. Correct.

A. (Ware) So, between the permanent, where we now have, you know, 581 customers. So, when this case is done, assuming that it is agreed upon by the Commissioners that the request is appropriate, we'll have 581 customers, in the permanent rate increase, generating, you know, a certain amount of revenues. And, then, the proposed rates are going to go up to reflect the step, I believe this is the -- yes, the step increase. So, no change in number of customers between the permanent and the step.

CMSR. HONIGBERG: Oh, good. I did get that. I think that's all I have. Thank you.

CHAIRMAN IGNATIUS: Just a couple more questions.

BY CHAIRMAN IGNATIUS:

Q. One is a simple math one that may be another one of these rounding issues, but just so the record is clear. If you look at Page 2 of the Settlement Agreement, Exhibit 4. In Section A, the second and third -- no, I'm sorry, the second line you have the "9.91 percent" permanent rate increase and the step of "1.62 percent", and then that totaled up to an increase in the third line of "11.52 percent".

A. (Witness Goodhue nodding in the affirmative.)

Q. My math's not good, but I would have gotten 11.53.

A. (Laflamme) That's part of the Excel rounding issue.

Q. That's fine. So, is the correct number, though, 11.52 percent?

A. (Laflamme) Yes.

Q. And, you've got the actual numbers that go down to the details in your attachments that all conform?

A. (Laflamme) Yes.

Q. Good. On the section addressing "Determination of

Return on Equity", on Page 5, you reference back to the prior settlement and the formula that's defined there, that I understand is not changing here. But can you just run the calculations for this case, what is the return on equity that's calculated, given the formula?

A. (Laflamme) The return on equity is -- you'll find in Attachment A, Schedule 1A, Page 14. And, it's Footnote 5, which is minuscule.

Q. Yes. You're not kidding.

A. (Laflamme) But that is -- that is the formula for determining return on equity. It takes the average of the 12 months from May, of the 30-year -- 30-year Treasury rates from May of 2012 through April of 2013. The average of those rates for those 12 months is 2.899 percent. And, to that amount, 3 percent is added, to derive the 5.899 percent return on total common equity.

Q. Thank you. I just want to just knowledge how useful it is to have those clarifications of some of the terms as you've worked through post acquisition. It's great to get those sorted out and in writing for everyone to live by going forward, and thank you for doing that. Mr. Laflamme, you had said that all of the audit items were resolved through the Settlement. There was one that I wasn't certain where it appeared. On the last -- I'm sorry. On Page 41 of the audit, there was a dispute about legal services. It didn't have an audit find number associated with it. But the Company was disagreeing with the Staff's position on that. Is that also resolved? Yes, I'm sorry. We're in Exhibit 5, the Final Audit, Page 41. And, I think the issue was whether the legal expenses -- whether some of them should be considered "non-recurring" and taken out of the test year.

A. (Laflamme) Yes. Those -- I believe those items were resolved.

Q. Does the Company have a different view? Is that your understanding as well?

A. (Goodhue) Yes, ma'am.

CHAIRMAN IGNATIUS: All right. Thank you. All right. I have no other questions. Is there any redirect, Ms. Brown?

MS. BROWN: I have one, to Mr. Ware.

REDIRECT EXAMINATION

BY MS. BROWN:

Q. And, this is to follow up on Commissioner Honigberg's question of where the rates -- the Company is required pursuant to the Settlement Agreement to file a

compliance tariff, is that correct?
A. (Ware) Yes.
Q. And, is that where the rates that would correlate to the Report of Propose Rate Changes, which is in dollars, is that where the rates will be shown?
A. (Ware) That is correct.

MS. BROWN: Okay. Thank you.

CHAIRMAN IGNATIUS: Mr. Getz, any redirect?

MR. GETZ: No, madam Chair.

CHAIRMAN IGNATIUS: All right. And, Ms. Hollenberg, anything as a co-signatory?

MS. HOLLENBERG: No thank you.

CHAIRMAN IGNATIUS: All right. Then, you're excused. Thank you very much, gentlemen.

WITNESS GOODHUE: Thank you.

CHAIRMAN IGNATIUS: Extremely helpful and thorough. As they're getting settled, let me ask, is there any objection to striking the identification on the exhibits?

MS. BROWN: No.

MR. GETZ: No objection.

MS. HOLLENBERG: No.

CHAIRMAN IGNATIUS: Seeing none, we'll

do so. And, anything to take up before final closing statements?

(No verbal response)

CHAIRMAN IGNATIUS: Doesn't appear to be. So, we will begin with Ms. Hollenberg.

MS. HOLLENBERG: Thank you. Short and sweet. The Office of Consumer Advocate recommends that the Commission approve the Settlement Agreement as proposed by the parties. We thank the Company and the Staff for their efforts and cooperation in this case. And, we thank you for your time today.

CHAIRMAN IGNATIUS: Thank you. Ms. Brown.

MS. BROWN: Also brief, Staff respectfully requests the Commission approve the proposed revenue requirement for the permanent rates and the proposed revenue requirement bump caused by or proposed with the step increase. Request that the Commission approve the terms of the Settlement Agreement. We understand that some of these terms go back to Order Number 25,292, in Docket DW 11-026, but we don't believe that it is a modification to the order. It's just a clarification going forward of the terms of that order.

Staff believes and has testified today

that the rate base in the revenue requirement is used and useful, has testified that the resulting rates are just and reasonable.

And, I think that it was it. Thank you again for your time and your consideration.

CHAIRMAN IGNATIUS: Thank you. Mr. Getz.

MR. GETZ: Thank you, madam Chair. First of all, the Company would like to thank Staff and the Office of Consumer Advocate for its efforts in this proceeding. It's one of the three first rate cases coming out of the acquisition of the three Pennichuck subsidiaries by the City of Nashua.

And, what's not obvious today was how extensive the discovery was in this proceeding. And, I think it was extremely thorough and resulted in a good review of the issues. And, what the Company believes is a reasonable Settlement Agreement that provides adequate revenues and cash flow for the Company to meet it's ongoing expenses, and provides an opportunity to earn a fair return on its investment. And, the Company would ask that you approve the Settlement Agreement.

CHAIRMAN IGNATIUS: Thank you. We will take that under advisement. And, we'll adjourn this hearing.

(Whereupon the hearing ended at 11:22 a.m.)