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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 7, 2008 - 10:14 a.m.
Concord, New Hampshire

RE: DW 08-052
PITTSFIELD AQUEDUCT COMPANY, INC.:
Notice of Intent to File Rate
Schedules. (Hearing regarding
temporary rates)

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

Connie Fillion, Clerk

APPEARANCES: Reptg. Pittsfield Aqueduct Company, Inc.:
Sarah B. Knowlton, Esq. (McLane, Graf...)

Reptg. Locke Lake Colony Association:
Michael Ranaldi
Deana Cowen

Reptg. the Town of Pittsfield:
Laura A. Spector, Esq. (Mitchell...)

Reptg. Birch Hill Water District:
Kirk W. Smith

COURT REPORTER: Steven E. Patnaude, LCR No. 52

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APPEARANCES: (c o n t i n u e d)

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

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

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EXHIBIT NO.

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{DW 08-052} (Re: Temporary Rates) {10-07-08}

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

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DW 08-052. On
4 May 2nd, 2008, Pittsfield Aqueduct Company filed a
5 petition for temporary rates and for an increase in
6 permanent rates. The Commission issued an order on May
7 23rd suspending the proposed tariffs and scheduling a
8 prehearing conference and a temporary rate hearing. The
9 prehearing conference was held on July 16, and
10 subsequently a procedural schedule was approved, which
11 included a hearing on temporary rates for this morning.

12 Can we take appearances before we begin.

13 MS. KNOWLTON: Good morning, Chairman
14 Getz and Commissioner Below. My name is Sarah Knowlton.
15 I'm with the law firm of McLane, Graf, Raulerson &
16 Middleton. I'm here today on behalf of Pittsfield
17 Aqueduct Company, Inc. And, with me from the Company is
18 Bonalyn Hartley, Donald Ware, and Charles Hoepper.

19 CHAIRMAN GETZ: Good morning.

20 CMSR. BELOW: Good morning.

21 CHAIRMAN GETZ: Other appearances,
22 parties who are appearing today?

23 MS. SPECTOR: Good morning. Laura
24 Spector, from the Mitchell Municipal Group, on behalf of

{DW 08-052} (Re: Temporary Rates) {10-07-08}

1 the Town of Pittsfield.

2 CHAIRMAN GETZ: Good morning.

3 CMSR. BELOW: Good morning.

4 MR. RANALDI: Good morning. My name is
5 Michael Ranaldi, from Locke Lake. I'm President of the
6 Board of Directors for the Locke Lake Association.

7 CMSR. BELOW: Good morning.

8 MR. RANALDI: And, this is my Business
9 Administrator, Deana Cowen.

10 CHAIRMAN GETZ: Good morning.

11 CMSR. BELOW: Good morning.

12 MR. RANALDI: Good morning, sir.

13 MS. HOLLENBERG: Good morning. Oops.
14 After you, please.

15 MR. SMITH: Good morning. Kirk Smith,
16 Birch Hill Water District, Town of Conway.

17 CHAIRMAN GETZ: Good morning.

18 CMSR. BELOW: Good morning.

19 MR. SMITH: Good morning.

20 MS. HOLLENBERG: Good morning again.

21 Rorie Hollenberg and Stephen Eckberg, here for the Office
22 of Consumer Advocate.

23 CMSR. BELOW: Good morning.

24 CHAIRMAN GETZ: Good morning.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

1 MS. THUNBERG: Good morning,
2 Commissioners. Marcia Thunberg, on behalf of Staff. And,
3 with me today is Doug Brogan, Jayson LaFlamme, and Mark
4 Naylor. And, we also have Jim Lenihan, who will be
5 offered as a witness when it is our turn. Thank you.

6 CHAIRMAN GETZ: Good morning.

7 CMSR. BELOW: Good morning.

8 CHAIRMAN GETZ: So, I presume that the
9 Company will go first. Anything we need to address or any
10 discussion of procedure for this morning that we should
11 talk about?

12 MS. KNOWLTON: We've provided the
13 Commission with a proposed Exhibit List that has six
14 exhibits that we would like to mark for identification.
15 And, all of the parties are in agreement on that proposed
16 Exhibit List.

17 CHAIRMAN GETZ: Well, then, let's just
18 mark for identification Exhibits 1 through 6 as set forth
19 in the Exhibit List that's been provided by Ms. Knowlton.

20 (The documents, as described, were
21 herewith marked as Exhibit 1 through
22 Exhibit 6, respectively, for
23 identification.)

24 MS. KNOWLTON: I think our -- The

{DW 08-052} (Re: Temporary Rates) {10-07-08}

1 Company has one witness today, Bonalyn Hartley. And, I
2 think our proposed way of proceeding is for Ms. Hartley to
3 testify, and others, Staff, I believe, would follow, and
4 then Mr. Ranaldi, from Locke Lake.

5 CHAIRMAN GETZ: Would go after Staff or
6 before Staff?

7 MS. THUNBERG: It's Staff's
8 understanding that the Company witness would be
9 cross-examined before Staff puts its witness on, and then
10 we would just go through the direct and then cross, open
11 it up for cross-examination.

12 CHAIRMAN GETZ: Well, I was just asking
13 when is Mr. Ranaldi going to testify, before or after
14 Staff?

15 MS. KNOWLTON: My thought was after
16 Staff. Staff and the Company have a settlement. So, my
17 thought was that the Company testifies and Staff
18 testifies, and then Mr. Ranaldi testifies, that that might
19 make the most sense.

20 CHAIRMAN GETZ: Does everybody agree?

21 MR. RANALDI: Yes. Yes, sir, we do.

22 MS. THUNBERG: Yes.

23 CHAIRMAN GETZ: Okay. Thank you. Then,
24 Ms. Hartley, please take the stand.

[WITNESS: Hartley]

1 (Whereupon Bonalyn J. Hartley was duly
2 sworn and cautioned by the Court
3 Reporter.)

4 BONALYN J. HARTLEY, SWORN

5 DIRECT EXAMINATION

6 BY MS. KNOWLTON:

7 Q. Good morning, Ms. Hartley.

8 A. Good morning.

9 Q. Please state your full name for the record.

10 A. Bonalyn J. Hartley.

11 Q. And, by whom are you employed?

12 A. Pennichuck Corporation, which is a parent corporation
13 for the subsidiary that is before us today, which is
14 Pittsfield Aqueduct Company.

15 Q. What is your position with the Company?

16 A. I'm Vice President of Administration and Regulatory
17 Affairs.

18 Q. How long have you held that position?

19 A. Well, the current title, only about a year. Prior to
20 that, I think about eight years.

21 Q. What is your educational background?

22 A. I'm a graduate of Rivier College, have a Bachelor's
23 degree in Business Administration. I've also attended
24 the utility rate seminar in -- sponsored by NARUC.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 Q. Did you submit testimony to the Commission regarding
2 temporary rates in this docket?

3 A. I did.

4 Q. And, we've marked for identification that testimony as
5 "Exhibit 1". Do you have that before you?

6 A. I do.

7 Q. And, was that testimony prepared by you or under your
8 direction?

9 A. It was.

10 Q. Okay. What is the purpose of that testimony?

11 A. It's to discuss the Company's request for temporary
12 rates and the settlement the Company reached with
13 Staff, the earned rate of return, as compared to the
14 allowed rate of return, and to explain settlement on
15 temporary rates.

16 Q. Your testimony, your written testimony that's been
17 marked as "Exhibit 1", doesn't talk about the
18 settlement, but you're going to testify about that
19 today, right?

20 A. Yes.

21 Q. Okay. And, to the best of your knowledge, is your
22 testimony true and correct, your written prefiled
23 testimony?

24 A. Yes, it is.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 Q. Okay. And, if you would take a look at what's been
2 marked as "Exhibit 1", and can you just identify for
3 the Commission the components of that testimony?
- 4 A. Basically, this is a narrative that describes the
5 Company's financial performance, the reason for the
6 request for temporary rate relief, and the amount
7 requested by the Company. There are also two schedules
8 attached to my testimony; a Schedule A, which is a
9 Computation of Revenue Deficiency, and Schedule 9,
10 Report of Proposed Rate Changes. I should also note
11 that the Company has prepared the case to recommend
12 separate rate groups for the North Country system from
13 Pittsfield Aqueduct. And, that's all contained in my
14 testimony.
- 15 Q. Let's first talk about why the Company filed for a rate
16 increase in this case. Can you describe the reasons
17 why the Company is seeking rate relief, and
18 particularly temporary rate relief?
- 19 A. Yes. Currently, the Company is earning 12,042 basis
20 points below its last allowed rate of return.
- 21 Q. Can I just jump in? You said "12,000", do you mean
22 "1,200"?
- 23 A. No, 1,200.
- 24 Q. Okay.
- {DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 A. I'm sorry. That would be pretty bad. And, it's based
2 on the Company's books and records on file with the
3 Commission, as well as in my testimony.
- 4 Q. And, if you were to -- is there another way to express
5 what that means to be 1,242 basis points below your
6 allowed return, in terms of what the impact on the
7 Company's net operating income is?
- 8 A. Yes. In simple terms, the net operating income at the
9 end of 12/31/2007, which is the test year, the Company
10 had a negative net operating income of \$165,766. And,
11 then, to clarify it further, from January 2006 to
12 August 2008, the Company had a total negative net
13 operating income of \$316,966.
- 14 Q. And, are those numbers based on books and records that
15 are on file here at the Commission?
- 16 A. They are.
- 17 Q. What was the Company's last allowed return?
- 18 A. 8.42 percent. It was set in DW 03-107.
- 19 Q. And, was that the last rate case for Pittsfield
20 Aqueduct Company?
- 21 A. It was.
- 22 Q. Can you explain why the Company's return has eroded so
23 substantially since that last rate case?
- 24 A. Primarily, obviously, there are some increases in
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 operating expenses, but the most significant, I would
2 say, cause would be the significant improvements in the
3 North Country systems.

4 Q. When did the Company acquire those systems?

5 A. May of 2006.

6 Q. And, can you describe generally the dollar amount of
7 improvements that the Company has made?

8 A. Yes, I can. In the North Country systems, the Company
9 invested 2.3 million. And, this was comprised of 16
10 booster and well pump replacements, an arsenic
11 treatment system, an iron and manganese treatment
12 system, 14 valve installations, a 250,000 gallon
13 storage tank in Locke Lake, an interconnection between
14 the Birch Hill system and the North Conway Precinct, 11
15 service replacements, OSHA upgrades to the booster
16 stations, and 117 meter renewals.

17 Q. Now, in addition to that \$2.3 million that the Company
18 has invested in the North Country systems, has the
19 Company invested any money in the system that serves
20 customers in Pittsfield?

21 A. Yes, we have. In Pittsfield, the Company made a
22 \$347,526 capital improvement to meet the Safe Drinking
23 Water Act regulations for improvements to the water
24 treatment plant for a finished water turbidity.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 Q. Now, you've been talking about the Company's proposal
2 in this case having two components, one being the North
3 Country systems and the second being Pittsfield, is
4 that right?
- 5 A. That's correct.
- 6 Q. Now, the Company -- the current rate design, though, is
7 not broken down into those two pieces, is that correct?
- 8 A. That is correct.
- 9 Q. And, what is the Company's current rate design?
- 10 A. The current rate design is that all customers are
11 charged the same rate, whether you live in the Town of
12 Pittsfield or you live in the North Country.
- 13 Q. And, that's as to residential customers?
- 14 A. Correct.
- 15 Q. There are separate rates for fire protection?
- 16 A. Yes. Fire protection, both public and private.
- 17 Q. Okay. And, the Company --
- 18 A. For the Town of Pittsfield only. There is no private
19 or public fire protection in the North Country systems.
- 20 Q. And, that's because there's no customers that fall into
21 that category?
- 22 A. That's correct.
- 23 Q. And, is the Company proposing to change its rate design
24 for purposes of temporary rates?

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 A. Yes.
- 2 Q. What is the Company's proposal?
- 3 A. We are proposing and recommending that, for temporary
4 rates, that there be two separate rate groups; one for
5 Pittsfield and one for the North Country. The Company
6 is proposing a 33.01 percent increase across the board
7 for all Pittsfield customers, which would result in
8 \$150,377 in additional revenues to the Company. For
9 the North Country system, the Company is proposing
10 179.64 percent increase to all of its customers served
11 in the North Country. This would generate \$567,854 in
12 additional revenues.
- 13 Q. And, on the request for temporary rates, am I correct
14 that it's about 75 percent of the permanent rate relief
15 that's sought in this case by the Company?
- 16 A. That is correct.
- 17 Q. Can you explain why the Company is proposing that this
18 new rate design take effect for purposes of temporary
19 rates?
- 20 A. Yes. There is concern by the Company that through the
21 process that it will be discovered, and it's certainly
22 apparent reading from my testimony for temporary rates
23 that there is a significant subsidization to the --
24 that will be borne by the Town of Pittsfield customers
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 as a result of these significant capital improvements.
2 We are concerned that, if we do not set temporary rates
3 in the two separate rate groups, that the recoupment
4 later would be very burdensome, if we determine that
5 that is the best result for this case. So, the Company
6 is proposing and recommending that, for temporary
7 rates, we do separate the two groups, and proceed
8 through discovery. And, then, if something changes for
9 permanent rates, so be it. But at least we have made
10 an attempt to mitigate some of the recoupment. And,
11 also, it's important to note, this is a very large
12 increase, and the Company recognizes that. And, we are
13 asking for 75 percent to mitigate rate shock when
14 permanent rates are awarded later in 2009.

15 Q. Ms. Hartley, in a minute I want to walk you through the
16 tariff pages, which show the distinction between these
17 two rate groups. But, before we talk about the tariff
18 pages, let's continue the conversation about -- your
19 testimony about these two different rate groups. Can
20 you describe who's going to be in that North Country
21 group?

22 A. Yes, I can. The Company is recommending that the Birch
23 Hill system, the Locke Lake system, and the Sunrise
24 system be comprised of the North Country group. And,
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 that the Pittsfield -- the Town of Pittsfield will be a
2 separate group. So, we're really talking three systems
3 in the North Country, and, obviously, the Town of
4 Pittsfield.

5 Q. And, when you refer to the "Town of Pittsfield", you
6 don't mean the Town itself, you mean customers that
7 reside in Pittsfield?

8 A. Yes. Yes, I do.

9 Q. Okay.

10 A. To be clear, that's correct.

11 Q. And, why is it that the Company believes that it's
12 appropriate to put together those three systems, Birch
13 Hill, Locke Lake, and Sunrise Estates into one rate
14 group?

15 A. Well, it's important to note, and we've discovered this
16 as we have -- since we've acquired the system, these
17 systems have a significant difference in profiles. The
18 Pittsfield customers have surface water treatment, they
19 also have the advantage, and it is an advantage, to
20 having a commercial and residential base that helps to
21 mitigate and share in some of the costs. And, also,
22 they have public and private fire protection. They
23 also are comprised of primarily full-time customers.

24 MS. HOLLENBERG: Excuse me, Mr.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 Chairman. I believe that this is not in the temporary
2 rate testimony, what's being testified to now. I was not
3 aware that we were going to address any differences, in
4 terms of the systems, at this hearing.

5 CHAIRMAN GETZ: So, you're objecting --

6 MS. HOLLENBERG: If the Company could
7 direct me to their testimony that includes a discussion of
8 differences between the systems and the basis for the
9 consolidation recommendation, I'm happy to withdraw my
10 objection. But I don't recall it.

11 CHAIRMAN GETZ: So, your objection is
12 that this is supplemental testimony beyond the scope of
13 her prefiled direct?

14 MS. HOLLENBERG: Yes, it is. In terms
15 of the temporary testimony, this is -- I do not recall
16 that this is something that was discussed in the temporary
17 testimony. But I'm happy to withdraw that objection, if
18 the Company can direct me to that portion of the
19 testimony.

20 MS. KNOWLTON: I think Ms. Hollenberg is
21 correct, that this is, you know, not technically within
22 the bounds of the temporary rate testimony. But, because
23 the Company is proposing the rate design as part of the
24 cost of service study, which was submitted as part of the

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 Company's rate filing, I thought that -- and which we've
2 proposed to mark as an exhibit, we thought it was
3 appropriate to give some of the background reasons for why
4 this distinction is being made. And, I am going to show
5 Ms. Hartley the cost of service study in just a minute so
6 that she can discuss that.

7 MS. HOLLENBERG: And, I guess my
8 response would be, is my understanding of the temporary
9 rate hearing is for the purpose of setting temporary rates
10 on the basis of the Company's books and records on file
11 with the Commission, and it doesn't include an analysis
12 and a investigation of the filing, including the cost of
13 service study. I think that that goes beyond the
14 temporary rate -- the scope of temporary rates. And, it's
15 not something that I was prepared to address today. And,
16 I don't believe that it was something I was on notice to
17 be prepared to address today.

18 CHAIRMAN GETZ: Well, I take it that
19 she's explaining the rationale for the decisions they have
20 come to.

21 MS. HOLLENBERG: Which is -- I'm sorry.

22 CHAIRMAN GETZ: But now you're saying
23 that you're objecting to Exhibit 3, the cost of service
24 study that's been marked for identification, that there

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 should be no discussion of that document in this
2 proceeding this morning?

3 MS. HOLLENBERG: The cost of service
4 study is something that the Company has filed with its
5 filing. I was not under the impression that it was
6 something that we were going to get into at this hearing.
7 And, I don't see the reason for that. Because I think
8 that the temporary rate request is based on the books and
9 records on file with the Commission. I think that this
10 testimony is beyond the scope of the -- not only the
11 hearing and the scope of the hearing, but the scope of her
12 prefiled temporary testimony.

13 CHAIRMAN GETZ: Ms. Thunberg, did you
14 have something?

15 MS. THUNBERG: Yes, I just wanted to put
16 Staff's position on the record. That, according to RSA
17 378:27, Staff has reviewed, and I quote from the statute,
18 "shown by the reports of the utility filed with the
19 Commission". And, Staff interprets that that anything
20 that is filed with the Commission, such as a cost of
21 service study, would be fair game for Staff to review in
22 concluding whether the Company has met its burden, that it
23 is either not earning its rate of return, with what is on
24 -- available to the public. So, it's Staff's position

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 that some conversation or some direct on the cost of
2 service study would be relevant to this hearing. Thank
3 you.

4 CHAIRMAN GETZ: Mr. Ranaldi, you had
5 something?

6 MR. RANALDI: Yes. If she's going to
7 put forth reasons to divide North and Pittsfield, will she
8 also be putting forth reasons in which maybe they should
9 be kept together?

10 CHAIRMAN GETZ: I would expect not.
11 But, Ms. Knowlton.

12 MS. KNOWLTON: Well, one thing that I
13 want to add, which, you know, and part of the reason why
14 we wanted to submit the cost of service study and mark it
15 as an exhibit as part of this proceeding, is that, you
16 know, we're aware that not all of the parties in this case
17 have joined in the settlement with the Staff and the
18 Company, which settlement, as we'll hear in a few minutes
19 from Ms. Hartley, is based on the separation of the, you
20 know, a change in the rate design so that we'd have these
21 two systems. The cost of service study that the Company
22 submitted with this case shows the cost of service based
23 on the current rate design. So, it shows the rates on a
24 consolidated basis. And, then, it also has two sections

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 teasing apart Pittsfield and North Country. So, I
2 actually think it's to everyone's benefit if that exhibit
3 is marked. Because, you know, there's a piece of that
4 that, you know, if they want to, you know, OCA or Locke
5 Lake wants to argue for consolidated rates, you know,
6 there is a portion of the cost of service study that shows
7 that. It also has, you know, the two subparts separated
8 out. And, you know, my thought is that more information
9 is better for the Commission in making its determination,
10 even though, technically, you know, part of that doesn't
11 support, you know, what we're asking for here. You know,
12 we felt it was helpful to put that information forward.

13 CHAIRMAN GETZ: One more round,
14 Ms. Hollenberg.

15 MS. HOLLENBERG: Well, I would just -- I
16 just would like to note that there is no settlement.
17 There is a consistency between the two positions being put
18 forth by the Staff and the Company. But there has been
19 several references this morning to a "settlement", and
20 there is no settlement. And, so, I would like to ask the
21 Commission to direct the parties to not continue to use
22 that word.

23 CHAIRMAN GETZ: So, you're saying
24 there's no written document, but there is --

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 MS. HOLLENBERG: There is no settlement.
2 There's a meeting of the minds.

3 CHAIRMAN GETZ: Well, can I finish my
4 sentence please?

5 MS. HOLLENBERG: Yes, you may.

6 CHAIRMAN GETZ: So, there's no written
7 document, but there's agreement between the parties --
8 between Staff and the Company, as evidenced by their
9 testimony. Is that your --

10 MS. HOLLENBERG: It's my position that
11 there's a meeting of the minds between them. And, there
12 is an agreement Staff is proposing or Staff is supporting
13 their proposal.

14 CHAIRMAN GETZ: Okay. Enough on this
15 topic.

16 MS. KNOWLTON: Okay.

17 CHAIRMAN GETZ: I mean, we always run
18 into this problem with summaries of direct testimony, it
19 sometimes goes astray. And, of course, we've read all the
20 testimony and prepared to hear the examination of the
21 witness. To the extent there is an actual settlement
22 among the parties, we often allow additional supplemental
23 testimony on that to round out the record. I'm taking
24 what has now given rise to an objection is an extra

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 explanation for the rationale to dividing up the --
2 dividing up the Pittsfield and the North Country. I don't
3 think it's -- this extra testimony is crucial to the
4 hearing or to our understanding of the process. So, I
5 would just say, let's finish up with direct with what's
6 absolutely necessary, before tendering the witness for
7 cross-examination.

8 MS. KNOWLTON: Okay. But I would like
9 to mark the cost of service study. We've agreed that that
10 would be marked for identification. I'd like to at least,
11 without going into, you know, the details of it, show it
12 to Ms. Hartley, so that we have some foundation in the
13 record for it.

14 CHAIRMAN GETZ: Yes, that's -- well,
15 this is where I'm confused, Ms. Hollenberg. If everyone's
16 agreed that this is to be marked for identification --

17 MS. HOLLENBERG: I guess --

18 CHAIRMAN GETZ: One of us at a time.
19 Are you objecting or agreeing that it can be part of the
20 evidence in this hearing?

21 MS. HOLLENBERG: I guess that I have to
22 admit that I really didn't look at the proposed Exhibit
23 List very closely, which I received moments before the
24 hearing began. If I could just have a second please?

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[WITNESS: Hartley]

1 CHAIRMAN GETZ: Well, I guess we don't
2 need a decision right now.

3 MS. HOLLENBERG: Okay.

4 CHAIRMAN GETZ: That's marked.

5 MS. HOLLENBERG: Okay.

6 CHAIRMAN GETZ: There's not going to be
7 any further direct testimony on it. It will be -- We'll
8 give you an opportunity --

9 MS. HOLLENBERG: Okay.

10 CHAIRMAN GETZ: -- later in the hearing
11 to think about it and tell us where you stand.

12 MS. KNOWLTON: I'll move on.

13 BY MS. KNOWLTON:

14 Q. Ms. Hartley, I had mentioned the tariff pages. If you
15 would look at what's been marked for identification as
16 "Exhibit 2".

17 A. Yes.

18 Q. Do you have that before you?

19 A. Yes. Just give me a second please.

20 Q. Were those tariff pages submitted by the Company as
21 part of this case?

22 A. Yes, I have them in front of me.

23 Q. And, were they prepared by you or under your direction?

24 A. Yes, they were.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 Q. Would you walk through these tariff pages and explain
2 how they show what the Company's proposal is here in
3 this case?
- 4 A. Yes. The first tariff page before me is a tariff page
5 that is proposing a 33.01 percent temporary rate
6 increase for the residents in Pittsfield only for
7 customers. It shows what the customer charge would be,
8 what the monthly current charge is, and what the
9 proposed temporary increase will be, as well as the
10 current volumetric charge and the proposed volumetric
11 charge, which will be proposed at \$4.39 per 100 cubic
12 feet of water.
- 13 Q. And, do most residential customers use the 5/8ths size
14 meter?
- 15 A. Yes, they do. And, their minimum monthly charge would
16 be \$13.66 under this proposal.
- 17 Q. And, how much would be 100 cubic feet of water under
18 the temporary rate proposal?
- 19 A. \$4.39.
- 20 Q. And, if you would then look at the next page that's
21 marked "Fifth Revised Page 39".
- 22 A. Yes. That is the tariff page, as I previously stated,
23 for municipal fire protection, which shows also an
24 increase across the board is being proposed, a
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 33.01 percent increase. Currently, the hydrant charge
2 in the Town of -- for the Town of Pittsfield is \$66.63,
3 and that is the customer, the Town of Pittsfield. And,
4 we're proposing an increase of 33 percent. And, it
5 would result in, for all hydrants, a charge of \$88.62
6 each. We're also proposing an increase in the
7 inch-foot charge, from \$0.03510 to \$0.0467 per
8 inch-foot.

9 Q. If you look at the next page, which is the "Fifth
10 Revised Page 40" of the Company's tariff.

11 A. Yes.

12 Q. To whom does this apply?

13 A. Yes, it does. This is the tariff sheet for the
14 residents or customers in the Town of Pittsfield who
15 have private fire protection. And, it also
16 demonstrates an across-the-board increase of
17 33.01 percent that we are proposing. The current
18 monthly charge for a 4-inch connection is 53.63. We're
19 proposing that be increased again by the 33.01 percent
20 to 71.33. And, similarly, as we go down, the 6-inch,
21 from 153.91 to 204.72, and the 8-inch from \$326.87 to
22 \$437.77.

23 Q. Okay. And, then, if you would look at the last page,
24 which is marked "Fifth Revised Page 38".

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 A. Uh-huh.

2 Q. Is this -- Are there any corrections to this page that
3 you believe are necessary?

4 A. Yes. We need to update the application, as this
5 schedule is applicable to all metered water services in
6 Birch Hill, Locke Lake, and the Sunrise Estates systems
7 in Middleton. There's an error, it says "Pittsfield",
8 and that is incorrect. This rate schedule shows those
9 three systems, this is a proposal for those three
10 systems consolidated, it's called "North Country only".
11 We're proposing a 179.64 percent proposed temporary
12 rate increase. Again, that would be across the board
13 at this time for all customers. And, it's important to
14 note they're all residential customers. So, most of
15 them will have the 5/8ths inch meter. I don't even
16 know if there are any larger meters, there may be one
17 or two. And, their monthly charge would increase from
18 \$10.27, and then, under the proposed 179.64 percent
19 increase, their monthly charge for a 5/8ths meter would
20 increase to 28.72. Similarly, the volumetric charge
21 we're recommending a 179.64 percent proposed temporary
22 rate increase, they're currently paying \$3.30 per 100
23 cubic foot. We're recommending, with this increase, it
24 will be \$9.23 per 100 cubic foot.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 Q. Ms. Hartley, did the Company reach a settlement with
2 the Staff with regard to temporary rates in this case?

3 A. Yes.

4 Q. And, what is your understanding of that settlement?

5 A. That my -- That the proposed, these tariff pages as
6 we've proposed, the two rate groups would be separate,
7 and that we would apply these rates as I have just
8 outlined for the Commission.

9 Q. Based on the revenue requirement --

10 A. Yes.

11 Q. -- that's stated in your prefiled testimony?

12 A. Yes.

13 Q. And, if the Commission were to approve the proposed
14 settlement agreement, what impact would that have on
15 the Company's operating income?

16 A. Well, just one minute, I've got to switch. It would
17 give us, what it's going to do, and that's another
18 reason why we selected the 75 percent increase, it will
19 allow us to cover our operating expenses, it will allow
20 us to service our debts, and we will achieve a small
21 return.

22 Q. Were customers, the Company's customers notified of the
23 proposed rate increase?

24 A. They were.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 Q. And, by what means?

2 A. Through all of the local newspapers. For example, an
3 order of notice was published on May 30th in the Union
4 Leader, on June 2nd in the Concord Monitor, on June 3rd
5 in the Suncook Valley Sun, and on June 6 in the Conway
6 Daily Sun. In addition to that, the Company mailed
7 individual notices to every customer on May 30th. And,
8 I think that --

9 Q. And, is that stamped -- we've marked for identification
10 as "Exhibit 4" a letter that --

11 A. Yes.

12 Q. -- the form of the letter that went to customers, is
13 that correct?

14 A. That's correct. This letter that's marked as an
15 exhibit went to every customer, and explaining, giving
16 an outline of what the cause was for the increase, and
17 giving some information to the customers, as well as
18 the display ad that was found in all the newspapers for
19 each of the systems. So that they were duly notified,
20 both through the newspaper and through this letter, and
21 we also attached the order from the Commission
22 suspending the proposed tariffs and scheduling the
23 prehearing conference. All customers received this
24 packet.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 Q. As of what date is the Company requesting temporary
2 rates to take effect?
- 3 A. June 6th.
- 4 Q. And, what is the basis for that date?
- 5 A. That was the last date that customers were notified.
- 6 Q. Based on the publication in the Conway Daily Sun?
- 7 A. Correct.
- 8 Q. And, in addition to customers having received the May
9 30th letter?
- 10 A. Yes.
- 11 Q. I now would like you to address the bill impacts on
12 customers, if the temporary rates, as proposed, are
13 approved by the Commission.
- 14 A. Yes.
- 15 Q. Let's start with Pittsfield. And, you're referring to
16 a document that's been marked as an exhibit, and would
17 you identify what you're looking at please. I think
18 there's a schedule to your testimony, a Report of
19 Proposed Rate Changes?
- 20 A. I may be -- I have a different document. I'm sorry.
21 Pardon me.
- 22 Q. Okay. I think that, if you look at Schedule 9 --
- 23 A. Oh. Yes.
- 24 Q. -- to your testimony.
- {DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

- 1 A. Yes.
- 2 Q. It's at the back of your testimony, do you see that?
- 3 A. Yes. Okay.
- 4 Q. Starting with Pittsfield, you want to walk through what
5 the impact will be on customers.
- 6 A. Yes. Okay. Attached to my testimony is a "Pro Forma
7 Schedule 9", says "Temporary Pittsfield Only". And, it
8 shows the impact of the 33.01 percent on customers.
9 The present revenue for the 646 customers is \$455,564.
10 With this proposed rate increase, it will increase by
11 \$150,377, resulting in a total proposed rate of
12 \$605,942.
- 13 Q. What about for the customers in the North Country rate
14 group?
- 15 A. Yes. Attached to my testimony is another exhibit
16 entitled "Pro Forma Schedule 9 Temporary North Country
17 Only". That also shows the effect of the 179.64
18 percent increase on the present rates of \$316,109,
19 resulting in a proposed rate of \$883,963. This is an
20 increase of \$567,854.
- 21 Q. Actually, Ms. Hartley, I don't think that we talked
22 about Schedule A, which is attached to your testimony.
23 I realize we're a bit out of order subject matter wise.
24 But, if you could flip to Schedule A?
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 A. Sure.

2 Q. Which is titled "Computation of Revenue Deficiency".

3 A. Yes.

4 Q. Can you identify and walk the Commission through what
5 this schedule shows?

6 A. Yes. This is the Schedule A that shows the information
7 necessary for calculating the 75 percent increase on
8 the -- for temporary rate purposes. As we can see, the
9 Company filed for a permanent rate increase. And, now
10 let me point you to "Schedule A Temporary" for the Town
11 of Pittsfield, for the residents of Pittsfield only.
12 And, we're asking for a 44.01 percent permanent rate
13 increase. And, the result of the 75 percent of that
14 amount is what we're requesting, which is the 33.01
15 percent, or \$150,377, which we just discussed on the
16 proposed rate sheets. And, that results, obviously, in
17 a revenue deficiency proposed by the Company right now,
18 as a result of the 44 percent increase, of \$200,503 for
19 permanent rates.

20 Q. Okay. And, there's a similar schedule for the North
21 Country?

22 A. Yes. We provided that also so that the Commission and
23 the parties could see the effect of the 75 percent that
24 we're requesting on permanent rates for the North

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 Country system as well. And, that's "Schedule A
2 Temporary North Country Only", and that shows a
3 75 percent effect on the permanent rate request, which
4 originally was 239,052 [239.52?] percent, and
5 75 percent of that results in the 179.64 percent, and
6 the revenue deficiency of \$567,854.

7 Q. Okay. And, the proposed revenue amounts that are in
8 these schedules are what the Company has agreed to with
9 Staff for the settlement in this case, correct?

10 A. Yes.

11 Q. Ms. Hartley, do you believe that the temporary rates,
12 as proposed, and as agreed to with the Staff, are
13 reasonable and consistent with the public interest?

14 A. I do.

15 MS. KNOWLTON: I have no further
16 questions for Ms. Hartley.

17 CHAIRMAN GETZ: In terms of order of
18 cross, we'll go to Staff, and then the Consumer Advocate,
19 Ms. Spector, Mr. Ranaldi, and then we'll go to Mr. Smith,
20 then to the Bench, and then opportunity for redirect.
21 But, in case it hasn't been made clear from the earlier
22 conversation, references to "settlement agreement", there
23 is no document. It is apparently evidenced by the
24 testimony of Mr. Lenihan, I take it. So, let's turn to

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Hartley]

1 cross from the Staff.

2 MS. THUNBERG: Staff has no
3 cross-examination of Ms. Hartley. Thank you.

4 CHAIRMAN GETZ: Ms. Hollenberg.

5 MS. HOLLENBERG: Thank you. Good
6 morning.

7 WITNESS HARTLEY: Good morning.

8 CROSS-EXAMINATION

9 BY MS. HOLLENBERG:

10 Q. You testified on direct that the investments to -- that
11 are included for Pittsfield are about 347,000?

12 A. That's correct.

13 Q. Okay. And, what is the total capital investment
14 included in the filing for Locke Lake?

15 A. Locke Lake, separate from Birch Hill?

16 Q. Yes, please.

17 A. I don't have that schedule in front of me, I'm sorry.
18 I will have to refer, with your permission, to Mr.
19 Ware, and he can relate to that. If that would be okay
20 with the Commission.

21 CHAIRMAN GETZ: Ms. Knowlton.

22 MS. HOLLENBERG: And, I was planning to
23 ask for each of the "North Country systems". So, to the
24 extent that you need other information for the Sunrise

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[WITNESS: Hartley]

1 Estates and Birch Hill, just to give you an advance.

2 CHAIRMAN GETZ: Ms. Knowlton, can Ms.
3 Hartley respond or do we need to swear in Mr. Ware? And,
4 is there any objection to that process, Ms. Hollenberg?

5 MS. HOLLENBERG: No.

6 MS. KNOWLTON: I just wanted to just --
7 I don't have any problem with swearing in Mr. Ware and
8 putting him on the stand. I just want to make sure that
9 there's no -- nothing I can point Ms. Hartley to so that
10 she can answer the question.

11 CHAIRMAN GETZ: For the sake of
12 completeness, let's just turn to --

13 MS. KNOWLTON: Yes. Okay.

14 CHAIRMAN GETZ: -- let's get Mr. Ware on
15 the stand. Or is the ball going to be handed somewhere
16 else?

17 MS. KNOWLTON: Apologize for the delay
18 here.

19 (Whereupon Donald L. Ware was duly sworn
20 and cautioned by the Court Reporter, and
21 added as part of a witness panel with
22 Witness Hartley.)

23 MS. HOLLENBERG: Good morning.

24 WITNESS WARE: Good morning.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 DONALD L. WARE, SWORN

2 CROSS-EXAMINATION

3 BY MS. HOLLENBERG:

4 Q. So, I had asked if you had any information about the
5 total capital investment included in the filing for
6 Locke Lake?

7 A. (Ware) Yes.

8 MS. KNOWLTON: Can I just do -- don't we
9 need to qualify the witness first? Just real quickly.

10 CHAIRMAN GETZ: Let's do a quick
11 qualification. We recognize --

12 MS. KNOWLTON: I don't think there's any
13 --

14 CHAIRMAN GETZ: -- Mr. Ware as an expert
15 in these matters, based on prior testimony. But let's
16 qualify him.

17 DIRECT EXAMINATION

18 BY MS. KNOWLTON:

19 Q. Mr. Ware, would you please state your full name for the
20 record.

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

22 Q. And, by whom are you employed?

23 A. (Ware) I'm employed by Pennichuck Corporation.

24 Q. And, how long have you been employed by the Company?

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[WITNESS PANEL: Hartley|Ware]

1 A. (Ware) I've been employed by the Company for 13 years.

2 Q. And, in what -- And as president the entire time?

3 A. (Ware) No. I've been employed in various capacities,
4 initially as Chief Engineer, and then Vice President of
5 Engineering, to Senior Vice President of Operations,
6 and currently President, the position that I attained
7 approximately two years ago.

8 Q. And, what is your educational background?

9 A. (Ware) I have a Bachelor's in Civil Engineering from
10 Bucknell University and a Master's in Business
11 Administration from the University of New Hampshire
12 Whittemore Business School.

13 MS. KNOWLTON: Thank you.

14 CROSS-EXAMINATION (resumed)

15 BY MS. HOLLENBERG:

16 Q. I think the testimony earlier was that the North
17 Country investments totaled about \$2.3 million. Does
18 that include the step increases?

19 A. (Ware) No, it does not.

20 Q. Okay. What's the total for the North Country, the
21 three North Country systems?

22 A. (Ware) With the step increases?

23 Q. Yes, please.

24 A. (Ware) Bear with us while we find it.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

- 1 Q. Sure.
- 2 A. (Ware) There have been so many questions asked in so
3 many different ways, it's a matter of finding the
4 correct data.
- 5 Q. And, actually, I'm really primarily interested in the
6 individual, for each system, what the total is,
7 including the step increase.
- 8 A. (Ware) Okay. All right. And, that, you know, we had
9 addressed in a data request. And, you know, the
10 numbers I'm going to give are the consolidated rate
11 base per system, and the number in particular for Birch
12 Hill includes the investments being made in the step
13 increase. So, we have, in Locke Lake, \$2,785,572; in
14 Birch Hill, \$1,540,059; and, in Sunrise Estates,
15 \$172,063.
- 16 Q. And, you said that that was in a data response. Can
17 you direct me to that data response?
- 18 A. (Ware) Yes. That was the response to OC -- or, excuse
19 me, to Staff 1-26.
- 20 Q. Thank you. And, the proposal is that Sunrise Estates
21 is consolidated with Locke Lake and Birch Hill. We had
22 a technical session on September 25th. And, my
23 recollection, if you could confirm, was that you
24 explained, in response to a question, that the reason
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[WITNESS PANEL: Hartley|Ware]

1 that Sunrise Estates was to be consolidated with Locke
2 Lake and Birch Hill was to mitigate future -- risks of
3 future capital investments in Sunrise Estates?

4 A. (Ware) That's correct.

5 MS. KNOWLTON: Chairman Getz, I just --
6 I have to note, all of these questions were questions that
7 I was going to ask Ms. Hartley about why the Company was
8 proposing the North Country system. And, I stopped that
9 line of inquiry, you know, because my understanding was
10 was that OCA objected to it. I, obviously, if she wants
11 to ask all these questions, that's fine, but I may have
12 some redirect for Mr. Hartley or Mr. Ware on this, because
13 that was exactly where I was going, you know, prior to her
14 objection, and I stopped.

15 MS. HOLLENBERG: I'll withdraw that
16 question.

17 CHAIRMAN GETZ: Well, we'll see where
18 the next line of questioning goes.

19 MS. HOLLENBERG: Okay.

20 BY MS. HOLLENBERG:

21 Q. Is it true that the Company has decided to defer
22 certain projects at Birch Hill?

23 A. (Ware) Yes.

24 Q. And, do those -- does that deferral have any impact on
 {DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 the temporary rate phase of the case?

2 A. (Ware) No.

3 Q. Thank you. And, you would agree that the Company has
4 circulated a revised cost of service study?

5 A. (Hartley) Yes.

6 Q. And, does that revised cost of service study have any
7 impact on the temporary rate phase of this case?

8 A. (Hartley) No, that was just distributed for discussion
9 purposes at our technical session.

10 Q. Thank you. Would you agree that the Company uses the
11 Pittsfield water treatment plant as its North Country
12 service depot?

13 A. (Hartley) Yes, to a great extent.

14 Q. Do you have another center for operations?

15 A. (Hartley) It's supported by our Operations Center in
16 Nashua.

17 Q. Okay.

18 A. (Hartley) From time to time, depending on the need.

19 Q. Does the water treatment plant in Pittsfield also
20 service Pittsfield?

21 A. (Hartley) Yes.

22 Q. Okay. You testified on direct that you had that
23 recoupment, without the 75 percent increase for
24 temporary rates, that the recoupment would be very
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 burdensome. And, I'm just wondering what your basis,
2 the basis for your belief that 75 percent is affordable
3 for particularly the customers in the North Country?

4 A. (Hartley) Well, "affordable" is a matter of perspective
5 for different people. So, I don't really want to
6 answer what's affordable for the residents there. I
7 recognize that it's a significant increase. And, that
8 the permanent rate increase is going to be significant.
9 And, if permanent rates, through discovery and through
10 the process of the next few months, determine that the
11 permanent rates, as a result of the step increase and
12 other matters -- other items that are in the case,
13 result in very high rates, which we are, in this case,
14 recommending -- proposing, I'm sorry, I believe would
15 have been about a 200 -- a 311 percent increase on a
16 combined basis. And, for the North Country, it would
17 239 percent. It was the Company's position, and we
18 still recommend, for temporary rates, that we want to
19 set them at this level, so that the recoupment, which
20 would be significant going back to June 6th, 2008,
21 could be mitigated, and it also helps to mitigate rate
22 shock.

23 Q. Is it possible, though, that if someone can't afford a
24 75 percent increase, that they're not going to be able
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 to afford the ultimate 311 percent increase?

2 A. (Hartley) I can't speak to what people can afford or
3 not afford. I'm telling you this is what is required
4 as the result of the significant improvements on the
5 system, the operating expenses to run the system, and,
6 yes, to service the debt, and a return for the
7 investment. That's what is required.

8 Q. Okay.

9 A. (Hartley) And, the Company is proposing. How that is
10 eventually -- how that eventually results, and how the
11 rates are structured for various customers, that will
12 be determined as part of the permanent rate proceeding.
13 But, for now, we believe this is a good -- this is the
14 step we need to take to get these customers paying for
15 the cost of service.

16 Q. Did you -- you pointed out on your direct a couple of
17 schedules that talk about the impact of temporary rates
18 as the Company and Staff propose. Did you prepare a
19 schedule that show the impact of temporary rate
20 increases if the revenue requirement was approved and
21 the rates remained consolidated?

22 A. (Hartley) Yes, I did.

23 Q. And, could you direct us to that please.

24 A. (Hartley) I think that would be in the direct
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 testimony. We might have provided -- let me see if I
2 provided, I don't believe we provided it for temporary
3 rates. But, in the direct testimony, and, oh, also in
4 the cost of service study, which is on file with the
5 Commission right now, it shows that the increase would
6 be, I believe, on a combined basis, let me get to that,
7 124 percent.

8 CHAIRMAN GETZ: Ms. Hartley, when you
9 say "in the direct testimony", you're talking about the
10 direct testimony on permanent rates?

11 WITNESS HARTLEY: Yes.

12 BY MS. HOLLENBERG:

13 Q. And, my question, just to clear, was on temporary
14 rates. What the proposed temporary revenue increase
15 would be spread across the consolidated rate base?

16 A. (Hartley) I did not prepare that.

17 Q. Could you estimate or would you accept subject to check
18 that it would be about a 93 percent rate increase
19 across all customers?

20 A. (Hartley) I believe that would be very close to
21 75 percent of a 124 percent increase, which would be a
22 consolidated permanent rate increase for the entire
23 Pittsfield Aqueduct customers.

24 MS. HOLLENBERG: Thank you. If I could

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[WITNESS PANEL: Hartley|Ware]

1 just have a minute please.

2 (Atty. Hollenberg conferring with Mr.
3 Eckberg.)

4 MS. HOLLENBERG: I don't have any other
5 questions for this witness. Thank you.

6 CHAIRMAN GETZ: Thank you. Ms. Spector.

7 MS. SPECTOR: Good morning. My only
8 question actually was going to be "what would be the rate
9 increase if there was a consolidated rate?" So, it's been
10 answered. I did want to let the Commission know, just for
11 your information, that the Town of Pittsfield agrees with
12 both Staff and the Company that, on a temporary basis,
13 there should be a split rate -- split rates. And, we
14 don't object to the amount either.

15 CHAIRMAN GETZ: Okay. Thank you. Just
16 what we will do, is after the end of testimony today,
17 we'll give an opportunity for closing statements. So,
18 I'll turn to Mr. Ranaldi, questions for the witnesses?

19 MR. RANALDI: Yes. Thank you.

20 CHAIRMAN GETZ: You can just use the
21 microphone there.

22 MR. RANALDI: Well, if you bear with me,
23 I'm new at this. I don't know exactly what I'm doing.
24 But what I did is, I printed these up, and may I give

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[WITNESS PANEL: Hartley|Ware]

1 these out, because I sort of based my questions on this.
2 So, I think they will help a little bit, if you just
3 follow along. I hate doing this.

4 CHAIRMAN GETZ: Make sure you get copies
5 to the attorneys.

6 MR. RANALDI: Yes. Yes, I was told to
7 try to get them out. I only had accounting up until 1972
8 for a couple years -- I've only had accounting for two
9 years in college in 1972. I worked in a warehouse in food
10 for 27 years, and so I'm kind of not knowing what I'm
11 doing. So, I beg your forgiveness.

12 MS. THUNBERG: Staff would just like to
13 request that, with the document that Mr. Ranaldi is
14 handing out, if he could just briefly explain the packet
15 to the witnesses.

16 MR. RANALDI: Yes.

17 MS. THUNBERG: Thank you.

18 MR. RANALDI: Well, basically, it's
19 Locke Lake's intention or argument that we should be all
20 combined. And, when I was taught accounting, I was told
21 that, you know, you look for a story inside all these
22 books. And, I'll tell you, I'm still reading, in fact,
23 Exhibit 3 that I just got is more reading. So, --

24 CHAIRMAN GETZ: Well, let me ask this

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[WITNESS PANEL: Hartley|Ware]

1 question.

2 MR. RANALDI: Yes.

3 CHAIRMAN GETZ: This package that you've
4 handed out --

5 MR. RANALDI: Yes, --

6 CHAIRMAN GETZ: For the stenographer's
7 sake, one of us can only talk at a time or we won't get
8 this down in the transcript. Is your intention to ask the
9 witnesses questions about these documents?

10 MR. RANALDI: Yes.

11 CHAIRMAN GETZ: Okay.

12 MR. RANALDI: And to try to find the
13 story for my -- okay.

14 CHAIRMAN GETZ: All right. Well, let's
15 mark for identification as "Exhibit 7" the multipage set
16 of documents, with the first page is entitled "DW 08-052
17 Pittsfield Aqueduct Company Responses to OCA Data Requests
18 Set Number 1".

19 (The document, as described, was
20 herewith marked as Exhibit 7 for
21 identification.)

22 CHAIRMAN GETZ: Mr. Ranaldi.

23 MR. RANALDI: Okay. Thank you.

24 BY MR. RANALDI:

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

- 1 Q. Okay. What I'm trying to do is I want to follow the
2 whole story from the beginning, because there's a lot
3 of things that I don't comprehend here. When I took
4 accounting, one of the first things is, when you do
5 construction, is you line up financing before you
6 actually do the construction. Now, in this document,
7 you started in May of 2006 for financing. And,
8 basically, where my problem is, it shows that you
9 started in 2006, and then it shows, I know in July you
10 got some SFR funding -- I mean SRF funding in July, and
11 then again in September. But my question, first of
12 all, did you attempt to get state funding for the
13 2.3 million or 2.0 that you stated in North -- in Locke
14 Lake, and 2.7 million or 3 million in -- I mean, all
15 those monies in the North Country, did you start any
16 type of state financing on these type of loans?
- 17 A. (Ware) The process was, yes, we did seek state
18 financing through the SRF process, which takes, as
19 you've seen in the first of the exhibits, the Number 1
20 that you've marked out, it takes approximately 17 to 18
21 months to complete the whole process of gaining that
22 financing. So, we started and we applied for financing
23 to accomplish the work that needed to be done up at
24 Birch Hill, because, at the time, there was no Safe
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 Drinking Water Act -- immediate Safe Drinking Water Act
2 noncompliance issues, and also to do some of the
3 pipeline improvements at Locke Lake. We proceeded
4 immediately with the construction of the arsenic
5 treatment facility at Locke Lake, and funded that with
6 different debt, because we couldn't wait the 18 months
7 to bring the Locke Lake system into compliance, wait
8 for the financing to take place.

9 Q. Okay. Thank you. I'm going to go right to Number 4 on
10 mine, with Schedule 5. Pittsfield Aqueduct long-term
11 debt. Okay. I notice that you have three basically
12 short-term debts. Is that for work that was done in
13 2007, basically, those two short-term debts, or were
14 there others?

15 A. (Ware) You're talking about the 2 and the 5-year term
16 notes?

17 Q. Yes, those two.

18 A. (Ware) Those notes were for the acquisition and for
19 some of the initial work that was done at Locke Lake
20 and Birch Hill, in terms of some of the meter
21 replacements, some of the meter installations, some of
22 the valve replacements and installations, initial well
23 pump replacements.

24 Q. Okay. And, just back stepping to Number 3, on May 5th,
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 a promissory note for 2.5 million, 7 percent, ten
2 years. It has a date "May 5th, 2008". Is there a
3 reason why maybe you could have gotten it sooner,
4 rather than later? And, if so, did this pay off
5 short-term debt?

6 A. (Hartley) This paid off an intercompany loan from the
7 parent. And, what it was is we refinanced, yes,
8 short-term debt, and made it an intercompany loan with
9 long-term debt for a 10-year period.

10 Q. Okay.

11 A. (Hartley) That's correct.

12 Q. Okay. Going to my Number 5, which is Schedule 2A,
13 combined balance sheet. Okay. It shows "Long Term
14 Debt", "Bonds", "Intercompany advances", "Intercompany
15 advances Pittsfield", "North Country", 3.5 million.
16 Are any of those going to be paid off or are those
17 going to be carried over into 2008, on the long-term
18 debt?

19 A. (Hartley) Those will carry over.

20 Q. Okay. And, could you tell me what exactly is "paid in
21 capital"? It's been a long time since I took
22 accounting, and I apologize. But I notice that it went
23 from \$237,000 in '05/06, and then it's up to
24 \$2,237,129. What exactly is "paid in capital"?

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 A. (Hartley) Paid in capital --

2 Q. I'm sorry, my accounting is way off, so --

3 A. (Hartley) Well, that would have been as a result of
4 these notes and financings.

5 Q. Notes being --

6 A. (Hartley) So, it's paid in capital from --

7 CHAIRMAN GETZ: I think he's basically
8 asking for you to define the term "what does "paid in
9 capital" represent?"

10 BY MR. RANALDI:

11 Q. Yes. Where does that 2 million go, in other words?

12 A. (Hartley) I'd like to reserve -- I'm not sure of the
13 answer.

14 A. (Ware) That is the equity infusion --

15 A. (Hartley) That's what I thought it was, the equity
16 infusion.

17 A. (Ware) \$2 million equity infusion.

18 A. (Hartley) It's an equity infusion, that's what it was.
19 It was an equity infusion. We had to infuse equity, I
20 had to remember, into the Company. And, I believe that
21 was in 2000 -- that was probably about 2007. So,
22 that's the investment, if you will, from our
23 shareholders.

24 Q. Okay. So, your shareholders gave your company
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 \$2 million in paid in capital?

2 A. (Hartley) Well, we had equity, and we infused it into
3 Pittsfield Aqueduct, because we needed to have a
4 balance of equity and debt. And, I'm sorry it took me
5 a few minutes to remember, but that's what we did.

6 Q. Okay. Thank you.

7 A. (Hartley) Another thing to understand, you have two
8 components, you have your debt and then you have
9 equity, which is investments.

10 Q. Okay. And, going to Number 6, and this is, and I beg
11 your forgiveness here, but I'm trying to figure out on
12 plant in service. And, you know, I ran through these
13 numbers here. And, basically, North Country had
14 4.7 million. And, this was from -- I got these figures
15 from, by the way, from Staff 1-25, which was -- I think
16 I included it, I hope I did. Number 26, maybe -- wait
17 a minute, maybe I didn't. Well, any way, basically,
18 you bought North Country out for \$750,931, that's what
19 I got from -- when you bought North Country. And, now,
20 you're saying plant in service is now 4.7 million for
21 North Country. I thought I included it, I guess I
22 didn't. I don't know.

23 CHAIRMAN GETZ: Ms. Knowlton.

24 MS. KNOWLTON: I want to note an

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 objection to this page in particular. You know, to the
2 extent that Mr. Ranaldi is presenting data responses and
3 wants to mark those --

4 MR. RANALDI: Well, I'll withdraw that
5 question, if you want me to.

6 CHAIRMAN GETZ: Well, let's just kind of
7 maybe step back to try and understand some of the ground
8 rules here. First of all, did you participate in any of
9 the technical sessions?

10 MR. RANALDI: Yes. Yes, I did.

11 CHAIRMAN GETZ: Okay. I mean, the
12 convention would be, with something like this, I don't
13 know if you're trying to submit this as a position or you
14 want to ask questions on it. You certainly --

15 MR. RANALDI: Well, I'd like to know --

16 CHAIRMAN GETZ: Mr. Ranaldi.

17 MR. RANALDI: Okay.

18 CHAIRMAN GETZ: Let's get going one at a
19 time on this. I think there's a technical objection to be
20 made here. But what's your intent with this document,
21 with this Page 4 -- or, Page 6 of this document?

22 MR. RANALDI: Well, my thing is, on
23 plant in service, as you can see the increase, and was
24 wondering if the Company had a percentage on how much

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 actual plant in service they actually own without the
2 liability. I mean, what's the breakdown, as far as, you
3 know, if you're talking capital, and if you have a certain
4 amount of assets and then you have a certain amount of
5 capital, which is owned by, you know, the people that you
6 owe money to and which is owned outright by the Company?

7 CHAIRMAN GETZ: All right. Well, let's
8 -- we try to give a certain amount of leeway to pro se
9 parties that are appearing before us. Ms. Hartley or
10 Mr. Ware, can you respond to that question, and take this
11 document subject to check?

12 BY THE WITNESS:

13 A. (Ware) I can attempt to address I think what Mr.
14 Ranaldi is asking. And, that is that the plant in
15 service that is there, 66.03 percent is the debt
16 component, you know, that was funded by debt.

17 BY MR. RANALDI:

18 Q. Okay.

19 A. (Ware) By loans. 33.97 percent is funded by equity.
20 That's input from the shareholders or retained
21 earnings.

22 Q. Okay. Thank you. I'm sorry about that. Okay. Let's
23 see. Okay. Schedule 1, 165,766 --

24 CHAIRMAN GETZ: Now, this is Page 7 of

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 your exhibit?

2 MR. RANALDI: Yes. Yes, Page 7.

3 BY MR. RANALDI:

4 Q. And, I transformed that over here to Page 8. And, I
5 got these numbers from Schedule 1 on the temporary rate
6 hike. On water sales, in '07, you had 771,674, and now
7 you're requesting, from Pittsfield, 150,377, and from
8 North Conway, 179 percent. But you see 1.4 million.
9 And, then I took the net operating deductions, net from
10 '07, and I got 541. Now, my question is, how do you
11 get your guaranteed 8.4 percent increase? Is that the
12 right figure, 8.4, as far as --

13 A. (Hartley) A return.

14 Q. Of return. So, I asked earlier of the gentleman how
15 you get the 8.4 percent. And, I'm trying to figure it
16 out. Can you help me with that just a little bit?

17 A. (Hartley) The 8.42 percent, I believe that's what
18 you're referring to?

19 Q. Yes.

20 A. (Hartley) Was our allowed rate of return, which -- in
21 the last rate filing for Pittsfield Aqueduct, which was
22 a 2003 test year. And, it was based on the debt
23 component at that time and the interest rate, as well
24 as the allowed return on equity, which is this -- which
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 combined, and I'll try to make it as simple as
2 possible, this 8.42 percent return that the Company was
3 entitled to in that case. What we're saying is, since
4 that case, the Company has -- the Company's earnings
5 have deteriorated, and it's return has deteriorated to
6 the point that it's now 1,242 basis points below that,
7 which is like a negative 4 percent. However, the
8 Company is proposing, for permanent, as well as
9 temporary rates, a different rate of return based on
10 the new debt and the new equity component, which I
11 believe is 7, I have so many numbers, I'm sorry, in my
12 head --

13 Q. 7.03 percent?

14 A. (Hartley) Yes. Correct. Which is what we're proposing
15 now. Because we have updated our debt component, and
16 we are using the last found ROE that the Company -- the
17 Company was awarded and the Commission has most
18 recently awarded for the return on equity. And, that
19 results in that 7.03 percent.

20 Q. Okay.

21 A. (Hartley) Does that help?

22 Q. Yes.

23 A. (Hartley) Okay.

24 Q. Okay. On Number 9, and you'll have to forgive me, I
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 draw your attention to near the bottom there, because I
2 still have a problem when you label meters "customers".
3 And, you averaged out that revenue per customers is
4 1,062, compared to 1,038 for Locke Lake. And, I still
5 take argument with that, because it's a little
6 deceiving to me. Because, from what I've read, there's
7 1,600 people using the 646 meters. And, in comparison,
8 now I don't know about Birch Hill and Sunrise Estates,
9 but the 824 is not only meters, it's also customers.
10 So, do you use, by any chance, that 1,062 in any type
11 of formula in this?

12 A. (Hartley) No.

13 Q. No.

14 A. (Hartley) That was basically for illustrative purposes.
15 And, it could be a little bit misleading, and let me
16 explain why. First of all, Pittsfield has 650
17 customers, or 646 as it shows here. But, in those 646
18 customers is your public and private fire protection,
19 industrial and commercial base. So, when we say that
20 the revenue per customer is 1,062, we're averaging
21 that. And, I think that's a bit misleading, because
22 we're getting different revenues from the different
23 classes of customer for fire protection, which you do
24 not find in the North Country systems. So, when we do
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 an average -- average revenue per customer for the
2 North Country systems, it is much more meaningful
3 because they're all residential.

4 Q. Okay.

5 A. (Hartley) So, that is misleading, and that needed to be
6 clarified.

7 Q. Okay. Because, on the next page, I want to draw your
8 attention to the allocations of management fee.

9 A. (Hartley) Uh-huh.

10 Q. Which I don't know what the management fees are, that's
11 your take. I mean, I know they get a lot of money. At
12 the bottom, it shows allocation management fees.

13 A. (Hartley) Uh-huh.

14 Q. And, down there you have, once again, customers,
15 and 36.81 percent, and, once again, customers,
16 11.09 [63.19?] percent. So, here you are using meters
17 to determine a percentage, and not customers.

18 A. (Hartley) These are customers.

19 Q. Okay. I mean, I'm not following this now, because now
20 you're saying that it is customers.

21 A. (Ware) Well, the term "customers", there are both
22 metered and non-metered customers in, for instance,
23 Pittsfield. So, you have a customer for public water
24 supply, that is one -- I mean, for public fire

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 protection, the Town of Pittsfield, that's one
2 customer, no meter. You have somebody who lives at,
3 you know, 32 Main Street, with a meter, single family
4 residential, that is a "customer", as we count
5 customers. So, this reflects actually accounts, where
6 each account gets sent a bill. It could be for water
7 usage, it could be for public fire protection, it could
8 be for private fire protection, it could be for a
9 business, it could be for a residence.

10 Q. Okay. So, how do you go from 16-- now, so, in other
11 words, you're only sending out bills to 664 people and
12 not 1,600 people?

13 A. (Hartley) Yes. That's correct.

14 Q. Okay. So, when you're basing water volume, okay, and I
15 don't know, I'm trying to comprehend this, and you're
16 trying to determine how much water a single person,
17 let's say, a single family in Pittsfield would have to
18 pay, and a single family in, let's say, North Country
19 has to pay, would they now be basically a little bit
20 different, because rather than basing it, per se,
21 single family/single family, you're basing it on
22 meters, on the breakdown on percentages?

23 A. (Hartley) Just trying to understand exactly how I
24 answer the question. All the customers -- what we've
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 proposed in this case is there will be a uniform
2 increase for all customers. However, the percentage of
3 the revenue we're requiring will require a higher
4 increase in rates, which is the 179 percent, for
5 example, for temporary rates, versus the 33 percent for
6 the Pittsfield customers. Does that explain what
7 you're asking?

8 Q. I don't think so. Because, see, this is my problem.
9 The problem is, Pittsfield uses X amount of water,
10 probably more water than North Country.

11 A. (Hartley) Uh-huh.

12 Q. Okay. Now, if the water is based on volume, and, you
13 know, per, let's say, per gallon of water?

14 A. (Hartley) Uh-huh.

15 Q. Okay. And, a single family in Pittsfield house in the
16 past, and now going into the future, will, according to
17 these percentages, pay less than a single family in
18 North Country.

19 A. (Hartley) Correct.

20 Q. Now, in the past, would that also be true?

21 A. (Hartley) Currently, everybody pays the same. That's
22 correct.

23 Q. Okay.

24 A. (Hartley) But we are proposing, as I've explained, the
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 two different rate groups.

2 Q. Okay. Okay. I want to skip Number 11, and go to

3 Number 12, because this shows a little bit what I'm

4 trying to get to. In Pittsfield, you show customers,

5 number of customers, and you actually have single

6 family resident usage per month, 506. Now, in

7 comparison to Locke Lake, which is 832, okay. Now,

8 this is why I'm concerned about the percentages. Now,

9 here's a breakdown of single family homes and how they

10 compare. Now, I even have a problem a little bit with

11 this. Because where you have Pittsfield, and if look

12 at it, it's up to 7.14 average usage, and a 4.21 down

13 in Locke Lake. You would think there would be, you

14 know, more, and there seems to be a problem. And, I

15 think your result, I want to bring your attention to my

16 next one, which is Number 13, it's the summer people.

17 In all your calculations that you've gone through up to

18 now, you continually put North Country, let's say, on

19 percentages as single family homes. And, when you're

20 doing your percentages, you didn't break down what

21 percentages may be full-time single family homes,

22 compared to summertime family homes. Now, I don't know

23 about North Conway and Sunrise. But, where I am, I

24 believe it's almost like a 60/40 percent breakdown.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 So, if you go by that, the actual people that are going
2 to be paying this 179 percent increase will actually be
3 paying 20 percent more than the so-called average of
4 the 100 percent that you're talking about.

5 A. (Hartley) Subject to check on your numbers, I will
6 agree with you that the full-time residents, because of
7 the volume they use, which is more than the seasonal
8 customers, which, by the way, the seasonal customers
9 represent 42 percent of that entire system, are going
10 to have an effective increase greater, because of their
11 volume, because of the usage, the rates are the same,
12 but the usage is different, where maybe a full-time
13 resident may use eight units of water, the seasonal
14 customers maybe use two units of water per month. So,
15 you are correct, because of the additional usage, the
16 full-time residents will have higher bills, as would
17 anybody who uses more water. I mean, it would vary
18 from customer to customer.

19 Q. So, could you go back to Number 10, where there's a
20 breakdown on percentages. If there's a 20 percent, I
21 mean, my figures might not be right, but would that
22 effect that percentage?

23 CHAIRMAN GETZ: Which percentage?

24 You're on Page 10, and you're talking about which

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 percentages? Down at the bottom?

2 MR. RANALDI: On my Page 10, on the
3 percentage at the bottom on the customers, as far as they
4 have 646 for Pittsfield, for 36.81 percent, and North
5 Country we have 1,109, at 63.19 percent. Now, --

6 CHAIRMAN GETZ: Well, let's -- I just
7 wanted to make sure we're all on the same page. Let's let
8 Ms. Hartley try to answer the question.

9 BY THE WITNESS:

10 A. (Hartley) This doesn't really have anything to do with
11 what we just discussed. This particular exhibit is the
12 management fee allocation that the Company, and, by the
13 way, it's on file with the Commission. This is a
14 methodology that the Company follows in terms of
15 allocating certain common expenses, shared expenses,
16 across the continuum of its subsidiaries. For the
17 purposes of trying to, if you will, cull out the
18 portion that would be allocable to the Pittsfield
19 Aqueduct, we use this same methodology of using assets
20 and average percentage of assets and customers to
21 allocate the management fee, only the management, which
22 is an expense, between the North Country and the
23 Pittsfield systems.

24 And, in this case, using that
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 methodology, 54 percent of the share for Pittsfield
2 residents would be \$258,000 and some change here, \$615,
3 would be allocable to Pittsfield. And, then,
4 45.9 percent would be allocated -- allocable to the
5 North Country. We did this to calculate what the
6 effect would be when we separated the two rate groups.
7 Okay?

8 BY MR. RANALDI:

9 Q. When Pittsfield was by itself and North Country came
10 on, did the Company take any consideration for
11 seasonal, compared to those that are full-time, when it
12 decided their rate hike, rate set?

13 A. (Hartley) No, and I will tell you why. When the
14 Company acquired the system, as you know or may not
15 know, some -- about, I want the say, 117 customers were
16 non-metered. And, then, we discovered, through the
17 process of operating the system, that many hundreds of
18 meters were not operating correctly. The data we had
19 did not support or give us a view into the fact that
20 there was a seasonal impact in the North Country
21 systems. What we used in, when we acquired the system,
22 in our calculations would be the average residential
23 service for Pittsfield, which is about seven and a half
24 to eight units a month. Once meters were set and
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 repaired, and we were able to establish a run rate in
2 that system, it became very clear to us that a great
3 portion of customers in those systems were only using
4 two units a month, and particularly in the summer
5 season it started to increase, and then it would go
6 back to two units or none. So, it became very clear to
7 us that we were dealing with a seasonal factor. And,
8 so, what -- going to what your comments are, yes, the
9 seasonal customers will not pay as much on a monthly
10 basis, if they're only using two units, versus a
11 full-time resident who would be using eight units.

12 Q. I'd like to skip over 14 and go to Number 15, that
13 being the Stipulation. And, my concern, is it common
14 business practice if you were to have, let's say, a
15 fixed number of stores or fixed number of places to
16 raise revenue, is it a good solid business practice to
17 put all capital expenditures on one, two, or three, or
18 would it be better kept business practices to spread
19 over everybody?

20 A. (Hartley) I assume you're talking about the capital
21 investments to repair the system?

22 Q. Yes, I am.

23 A. (Hartley) And, I wasn't part of this Stipulation, so I
24 can only speak to it from, I guess, knowledge that I
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 have gathered through working on this case. The
2 understanding was, when we took over the Pittsfield
3 Aqueduct system, which would be the North Country
4 component, that -- that they would share fairly --
5 there would be very little subsidization going back and
6 forth between the two systems, based on the knowledge
7 we had and the facts before us. But, as far as the
8 Stipulation Agreement, we were required to track them
9 separately, and we did, until further discovery and
10 time, because these systems, particularly the North
11 Country systems, which I'm sure you well know, were in
12 absolute disrepair. They didn't meet compliance
13 standards, there were just a ton of problems up there.
14 We couldn't run fast enough to fix them. And, so, it
15 took us time to figure out what the run rate was, what
16 the seasonal impact was, and then discover so many
17 surprises as we went along to fix things. And, so, in
18 most cases, in other cases, we always recommend blended
19 rates, because you have the ebb and the flow, if you
20 will, of ratemaking, so that maybe one customer is
21 subsidizing one group of customers one time, and
22 another set are maybe subsidizing on a small scale, not
23 a huge scale, other customers. So, we did recommend in
24 this case that that made sense. And, as I've said in
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 my testimony, because of the significant capital
2 improvements that were made in the North Country, that
3 we believe it is an undue subsidization on the
4 Pittsfield customers.

5 Q. Would you say half a million dollars would be a great
6 capital expenditure?

7 A. (Hartley) I think it's a lot of money, yes. But it's
8 --

9 Q. A million dollars, 1.5 million, that's great capital
10 expenditures?

11 A. (Hartley) Yes, to a certain extent, depending on the
12 size of the system.

13 Q. Then, can you explain to me why, if you don't believe
14 in spreading it over a number of places and share, like
15 Middleton, who only had a few thousand dollars worth of
16 capital expenditures are included in the North Country?

17 A. (Hartley) I didn't catch that. I'm sorry, sir.

18 Q. Could you explain to me why Middleton, which is Sunrise
19 Estates, who only had a few thousand dollars worth of
20 capital expenditures done, is included in North Country
21 and not within the 33 percent that Pittsfield is in?

22 A. (Hartley) Yes. My understanding -- I really think I'll
23 pass this over to Mr. Ware, --

24 Q. That will be fine.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS PANEL: Hartley|Ware]

1 A. (Hartley) -- whose familiar with the capital
2 improvements in those systems.

3 A. (Ware) Okay. When we looked at the systems, and we
4 looked at how to group them together going forward,
5 understanding the customer usage patterns,
6 understanding the construction of the systems, surface
7 water supply versus groundwater supply, and
8 understanding, you know, the future going forward as
9 best as we can, in the case of Middleton, it is a
10 groundwater supply. So, it's subject to some of the
11 upcoming rules relative to -- there's a new rule called
12 the "Groundwater Rule" that's being promulgated, that
13 may require additional treatment, say, at Sunrise
14 Estates. There is also some older tanks, in the order
15 of about 40 years old at Middleton that may need to be
16 replaced to the tune of several hundred thousand
17 dollars. So, again, as Ms. Hartley expressed, there is
18 an ebb and a flow. And, we believe that, if you look
19 at where that group should be, they should be in a
20 group of similar customers. Customers who have a
21 similar structure, some seasonality, they have
22 groundwater, and they have more of what we call a
23 "community water system profile", versus the Town of
24 Pittsfield, which has a surface water supply, has very
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1 little seasonality, and has industrial/commercial
2 public and private fire protection.

3 CHAIRMAN GETZ: Ms. Hollenberg?

4 MS. HOLLENBERG: Yes. Thank you. I'm
5 just going to renew my objection to, I hate to do this, in
6 light of the fact that it is a consumer asking these
7 questions, but I do believe that getting into the
8 reasoning for the deconsolidation of the rates goes beyond
9 the scope of this hearing and the notice that was provided
10 to the parties.

11 CHAIRMAN GETZ: One of the parties has
12 opened the door by asking this line of questioning.

13 MR. RANALDI: Well, I think --

14 CHAIRMAN GETZ: Mr. Ranaldi.

15 MR. RANALDI: Oh, I'm sorry.

16 CHAIRMAN GETZ: We're never going to get
17 this adequately on the transcript if we're going to have
18 two people repeatedly trying to speak at the first time.
19 I have to overrule the objection. This is a line of
20 questioning asked by a party to the proceeding. He's
21 opened the door. So, I think it's fair for the Company to
22 respond. Though, I think this question has already been
23 asked and answered at least once in this proceeding
24 already this morning.

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1 Can you please proceed.

2 MR. RANALDI: Thank you.

3 BY MR. RANALDI:

4 Q. Pittsfield, according to Number 16, on my thing, is
5 going to be requiring work on pipes, I believe 1,500 --
6 500 lineal feet per year, times 140, that's 70,000
7 there -- I mean, yes, 70,000. And, then, on my Number
8 17, you're talking about certain lines, pipes. And, on
9 the next page, estimated cost, a million dollars. So,
10 Pittsfield is looking to do also capital expenditures,
11 as is Sunrise Estates. And, for the best of my
12 knowledge, I can't figure out why you're dividing this
13 up, if we're all pretty much in the same boat? Because
14 they're going to be requiring capital expenditures
15 going forward, they have an older type of system.
16 Isn't it to their benefit also to spread out costs,
17 like I'm trying to do, as far as Locke Lake?

18 A. (Ware) Let me address, just so we understand, your
19 Number 16 and Number 17. You're taking -- Number 17
20 was a response to why we made the improvements, put in
21 the raw water line at Locke Lake, and you pulled the
22 million dollars out of there, that was an assessment of
23 what it would have cost to have upgraded the treatment
24 plant or drill wells.

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[WITNESS PANEL: Hartley|Ware]

1 Q. Okay.

2 A. (Ware) So, that's not an improvement that's going to be
3 made. The improvements to be made, that we discussed,
4 are in your Number 16, which is we're talking about
5 doing about \$70,000 worth of pipeline work right now in
6 Pittsfield a year, and that about equates to their
7 depreciation expense, so that there would be no impact
8 on rates. You have 640 customers. Middleton was 79
9 customers. When you spend several hundred thousand
10 dollars, that's a very large investment. And, so,
11 again, what we tried to do here was to keep the
12 groupings together, not leave Middleton off by itself,
13 where initially that might look to be favorable. But,
14 after you make these improvements in two to three
15 years, their rates go up significantly, because there's
16 only 79 people to share the rates, instead they're
17 sharing it with 1,100 people. And, the problem with
18 consolidating those 1,100 with the 640 is all the
19 reasons we talked about. The fact that you would take
20 Pittsfield from a 33 percent rate increase to a
21 94 percent rate increase.

22 Q. With these difficult times, what do you think will
23 happen when you put these temporary rates in and
24 eventually whatever type of rates that you put it will
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1 do to the North Country?

2 A. (Hartley) It is difficult times. And, the Company has
3 been very cognizant of that. We attended all the
4 public hearings. And, we're always sympathetic to
5 customers who, you know, have to burden an increase
6 like this. But it is the cost of service. And, I
7 don't know if this is the right way to put this, but it
8 does seem like a lot money. But, when you look at what
9 people pay for cellphones and for maybe cable and some
10 other expenses, water is a pretty important service.
11 And, having reliable and good quality service, and
12 having a company who monitors that for you, so you
13 don't get sick and nobody, you know, there's no outages
14 of significant amounts of time, I think it's a pretty
15 important service.

16 So, yes, it's expensive. But the
17 unfortunate part, and I can't speak to what will
18 happen, because I don't know. We're hoping that the
19 customers recognize the benefit of all the
20 improvements, that they're feeling better about their
21 water service, feeling safer. No, I wouldn't call it
22 extremely cheap. But, in today's environment, it's not
23 inexpensive to do these types of improvements. And,
24 unfortunately, those types of improvements should have
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1 been done over many years, not just a couple.
2 Unfortunately, that didn't happen. So, for that --
3 those reasons, yes, it is expensive. We're hoping the
4 customers recognize that the service they got, although
5 expensive, benefits them. And, I can't tell you what
6 will happen when they go into effect.

7 Q. On the last page, can you tell me what is
8 "Inter-division management fees"? I notice that they
9 go up quite a bit. And, I see administrative, and I
10 would imagine that's --

11 A. (Hartley) What page are you on, Mr. Ranaldi?

12 CHAIRMAN GETZ: Ms. Knowlton?

13 MR. RANALDI: The final page, 19.

14 CHAIRMAN GETZ: Ms. Knowlton?

15 MS. KNOWLTON: I have no objection to
16 the question, if Mr. Ranaldi wants to ask the witnesses,
17 you know, what is an "inter-divisional management fee",
18 but I do have an objection to this last page, because I
19 don't -- this I don't believe was something that was
20 submitted by the Company as part of a data response, and
21 I'm not familiar with what this is.

22 MR. RANALDI: Okay. I can withdraw that

23 --

24 MS. KNOWLTON: The specific question

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[WITNESS PANEL: Hartley|Ware]

1 about what that term means --

2 BY THE WITNESS:

3 A. (Hartley) I can take you right back to the -- you had
4 asked about the management fee --

5 BY MR. RANALDI:

6 Q. Yes.

7 A. (Hartley) and the percentages allocated between North
8 Country?

9 Q. Yes, I just want to know what it means --

10 A. (Hartley) That is the inter-divisional management fee.
11 That is the costs that are shared amongst the various
12 regulated utilities, and other companies, others that
13 the Company owns, and on a methodology that is approved
14 here at the Commission. So, that is what we call
15 "inter", so it's "intercompany division" --
16 "intercompany management fee". For example, if there
17 is a shared cost in Pennichuck Water Works, which is
18 our large system in Nashua, and you share in some of
19 that expense, that is called an "inter-divisional
20 management fee". It goes between the companies. And,
21 it goes --And, also, there's a corporate management
22 fee. So, all of this, and I know it's complicated,
23 believe me, because I worked on this for many years,
24 but, to suffice to say, these are shared expenses, both
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1 at the divisional level or the subsidiary level and
2 shared expenses at the corporate level, that are
3 calculated in accordance with the methodology approved
4 by this Commission.

5 MR. RANALDI: Okay. Thank you. I think
6 I'm all set, I hope.

7 CHAIRMAN GETZ: Thank you. Mr. Smith?

8 MR. SMITH: I don't have any questions.

9 CHAIRMAN GETZ: Okay. Opportunity for
10 redirect?

11 MS. KNOWLTON: Two questions.

12 REDIRECT EXAMINATION

13 BY MS. KNOWLTON:

14 Q. Mr. Ware, you testified about a step increase. That is
15 not part of the request for temporary rate relief, is
16 it?

17 A. (Ware) No, it is not.

18 Q. Ms. Hartley, you referred to the return on equity that
19 the Company is proposing in this case is 9.75, is that
20 correct?

21 A. (Hartley) Correct.

22 Q. And, you referred to that as being "the Company's last
23 return on equity". That's not for this particular
24 company, Pittsfield Aqueduct Company, is it?

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1 A. (Hartley) No, that was our last found return on equity
2 for the Pennichuck Water system, which is the return on
3 equity we use for all of the smaller regulated systems,
4 based on the findings here at the Commission and
5 approval from that.

6 Q. So, you're referring to the return on equity for
7 Pennichuck Water Works, Inc.?

8 A. (Hartley) Correct.

9 Q. An affiliated company?

10 A. (Hartley) That is correct.

11 Q. And, that is what the Company is proposing in this
12 case?

13 A. (Hartley) That's correct.

14 Q. And, to your knowledge, is that lower than the return
15 on equity that was last found for Pittsfield Aqueduct
16 Company?

17 A. (Hartley) I believe it is.

18 Q. Okay. Thank you.

19 A. (Hartley) By about -- I think it was at 10 percent, if
20 I'm correct on that.

21 MS. KNOWLTON: Thank you.

22 CHAIRMAN GETZ: Okay. Looks like that's
23 the complete examination of this panel of witnesses. So,
24 you're excused. Thank you very much. Let's go off the

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[WITNESS: Lenihan]

1 record for a second.

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

4 CHAIRMAN GETZ: So, back on the record.
5 Okay. We're going to take a brief recess and return, and
6 pick up with the Staff witness.

7 (Whereupon a recess was taken at 11:50
8 a.m. and the hearing reconvened at
9 12:16 p.m.)

10 CHAIRMAN GETZ: Okay. We're back on the
11 record in docket DW 08-052, concerning Pittsfield Aqueduct
12 Company Petition for Temporary Rates. And, Ms. Thunberg.

13 MS. THUNBERG: Yes. Staff would like to
14 ask Jim Lenihan to take the stand please.

15 (Whereupon James L. Lenihan was duly
16 sworn and cautioned by the Court
17 Reporter.)

18 JAMES L. LENIHAN, SWORN

19 DIRECT EXAMINATION

20 BY MS. THUNBERG:

21 Q. Mr. Lenihan, could us please state your name for the
22 record please.

23 A. My name is James L. Lenihan.

24 Q. And, do work with the Commission?

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[WITNESS: Lenihan]

1 A. Yes. I am employed by the Gas and Water Division of
2 the New Hampshire Public Utilities Commission.

3 Q. Could you please identify your job responsibilities
4 here.

5 A. I serve as a Utility Analyst in the Gas and Water
6 Division, reviewing petitions for rate increases,
7 specifically dealing with revenue allocations and rate
8 design, as well as special contracts as they come
9 before the Commission.

10 Q. Mr. Lenihan, I'd like to have you identify a document
11 that has been premarked as "Exhibit 5".

12 A. I have before me testimony prepared by me, nine pages,
13 submitted in this proceeding for temporary rates.

14 Q. Now, Mr. Lenihan, did you submit testimony more than
15 once?

16 A. That I did. I made a correction to a statement
17 regarding -- well, actually, what I did is elaborated
18 on a statement. I said I agreed -- would agree with
19 the imposition of temporary rates as proposed by the
20 Company. Subsequent to the submission of testimony, I
21 made a change, and the change that I made was
22 concerning the effective date. The Company had
23 suggested the publication date or June 1st, whichever
24 was earlier, I believe. And, I changed my testimony to
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1 "I would suggest or recommend that the effective date
2 be no sooner than the publication date, where all
3 customers are notified of the Company's proposed
4 increase." And, that is June 6th of this year.

5 Q. Mr. Lenihan, is this edited testimony what is
6 Exhibit 5?

7 A. Yes.

8 Q. Thank you. And, with respect to Exhibit 5, do you have
9 any corrections or changes to make to that document?

10 A. No, I do not.

11 Q. And, in the interest of time, is your education
12 background as identified in your prefiled testimony?

13 A. Yes.

14 Q. And, Mr. Lenihan, have you reviewed the records on file
15 with the Commission concerning Pittsfield Aqueduct
16 Company?

17 A. Yes, I have. And, based upon a review of the books and
18 records on file with the Commission, I concluded that
19 the Company is in a negative earnings situation, a rate
20 of return below zero. And that, for the purposes of
21 temporary rates, that temporary rates should be applied
22 in this proceeding.

23 Q. Okay.

24 A. I also, in the temporary rate testimony, indicated the
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1 level -- well, first of all, there are three things.
2 First of all, should the Company be granted temporary
3 rates? I said "yes", in accordance with my testimony.
4 Two, at what level? Well, I'm not going to object to
5 the level the Company has proposed, which is
6 approximately 75 percent of what they're seeking in the
7 permanent rate proceeding. And, the third area would
8 be the manner in which the Company would recover the
9 temporary rates. The Company has proposed, as we heard
10 earlier today from the testimony of Ms. Hartley, that
11 the revenue would be broken up between Pittsfield and
12 the North Country systems. I do not object, again, for
13 the purposes only of temporary rates, to that
14 particular revenue setup, I'll call them "revenue
15 centers", one center being Pittsfield and the other
16 being the three systems up north.

17 Q. Mr. Lenihan, I'd like to move onto the effective date
18 that you've just alluded to. And, I believe you just
19 stated that Ms. Hartley had testified as to a June 6th
20 effective date?

21 A. That was my understanding. That's what I heard her say
22 this morning.

23 Q. And, what is Staff's position with respect to an
24 effective date for temporary rates?

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1 A. I would also suggest or recommend June 6th.

2 Q. And, how did you come to agree with that recommendation
3 of June 6th?

4 A. That was based upon a review of the affidavits of
5 publication submitted in this proceeding. The last
6 date for the publication was June 6th. Some of the
7 systems, the publication date was earlier. Like, one
8 was the 30th, 2nd, 4th, the third was the 6th -- the
9 latest was the 6th. So, I would recommend that the
10 effective date of temporary rates, if the Commission
11 approves temporary rates, would be no earlier than the
12 6th of June.

13 Q. Thank you. Mr. Lenihan, are you familiar with the
14 concept of a temporary rate reconciliation?

15 A. Yes.

16 Q. Can you please describe what Staff expects, once the
17 permanent phase of this docket is concluded, what will
18 happen with the temporary rates?

19 A. At the conclusion of this docket, when -- if the
20 Company -- if the Commission approves temporary rates,
21 at the conclusion of this docket, and in accordance
22 with RSA 378:29, the Company will reconcile any over or
23 under collections from the time temporary rates were
24 established to the time the permanent rates are
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1 established. So, that if there is any over or under
2 recovery company-wide, then this would be reconciled at
3 the point that the Commission issues a final order in
4 this proceeding.

5 Q. Mr. Lenihan, are there benefits, in your opinion, to
6 allowing temporary rates during the pendency of a rate
7 proceeding?

8 A. Yes. The Company, obviously, is in an earnings
9 situation that's not very healthy. And, the imposition
10 of temporary rates will afford the Company some cash
11 flow during the review of the permanent rate
12 proceeding. And, I know, and we've heard this morning,
13 that the amount of the increase -- increases is
14 significant. However, the Company has expended the
15 capital to assure that the systems are providing
16 adequate, reliable service. And, not allowing recovery
17 for those capital expenditures would certainly
18 continue, if not exacerbate, the Company's negative
19 earnings situation. So, I think there's a benefit,
20 because customers are seeing an improved -- improved
21 systems. And, I think it's a benefit to the Company,
22 in that they need the cash to continue providing
23 service.

24 Q. Mr. Lenihan, what is your opinion as to the justness
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1 and reasonableness of the proposed temporary rates?
2 A. Again, for the purposes of temporary rates, I believe
3 that what the Company has proposed, and what Staff has
4 agreed to, would result in fair rates. And, again, I
5 want to emphasize, for temporary rate purposes, the
6 Company would be allowed to earn a reasonable rate of
7 return on their plant that, as I understand, is used
8 and useful.

9 MS. THUNBERG: Staff concludes its
10 direct and makes the witness available for examination.

11 CHAIRMAN GETZ: Okay. For order of
12 cross, we'll start with Ms. Knowlton, then we'll proceed
13 as we did before, to Ms. Hollenberg, Ms. Spector, Mr.
14 Ranaldi, and Mr. Smith. So, Ms. Knowlton?

15 MS. KNOWLTON: I have no questions for
16 Mr. Lenihan.

17 CHAIRMAN GETZ: Ms. Hollenberg.

18 MS. HOLLENBERG: Thank you.

19 CROSS-EXAMINATION

20 BY MS. HOLLENBERG:

21 Q. Good afternoon, Mr. Lenihan. How are you today?

22 A. Good afternoon, Ms. Hollenberg. I am fine. Thank you.

23 Q. You talked about, in your prefiled testimony and in
24 direct today, about reviewing the books and records on
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[WITNESS: Lenihan]

1 file. You reviewed the 2007 Annual Report of the
2 Company, is that correct?

3 A. That is correct.

4 Q. And, what other book or record on file form the basis
5 for your opinion today?

6 A. That pretty much summarizes the data that I used.

7 Q. Did you analyze the cost of service study?

8 A. Not in any full capacity, no.

9 Q. Did you ask any data requests about the cost of service
10 study?

11 A. I believe there were a couple data requests that were
12 asked in the preliminary portion of the case.

13 Q. But did that form the basis for your opinion about
14 agreeing with the Company's proposal?

15 A. Well, again, I want to emphasize, though, I heard the
16 term "agreement" this morning or "settlement
17 agreement", I believe my testimony is basically not
18 objecting to what the Company has submitted. Again, I
19 looked at the petition in terms of "does the Company
20 need revenue relief, rate relief?" "Is the level that
21 they're seeking reasonable?" And, third, "is the
22 recovery mechanism, which would be the revenue centers,
23 is that reasonable?" And, I said "yes" to all three.
24 This is, again, for temporary rate purposes only.

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[WITNESS: Lenihan]

1 Staff needs time. This is a case that has a number of
2 significant issues. And, I did not have time to put
3 together the data, the analysis for an alternative
4 temporary rate position. My position, Gas and Water
5 Division's position will be elaborated at the time
6 testimony in the permanent rate proceeding is scheduled
7 to be submitted to the Commission. Will it be the same
8 as the temporary rate recommendation today? I can only
9 say that what I recommended is only for temporary rate
10 purposes.

11 CHAIRMAN GETZ: But, in coming to your
12 position that you didn't object, did you rely on the cost
13 of service study to reach that decision?

14 WITNESS LENIHAN: Yes, I did rely on the
15 cost of service study, and that the Company had retained
16 the services of its consultant to look at a systemwide
17 revenue and revenue separating Pittsfield. Yes, I did. I
18 also --

19 BY MS. HOLLENBERG:

20 Q. When you --

21 WITNESS LENIHAN: Let me -- can I
22 continue?

23 CHAIRMAN GETZ: Please.

24 WITNESS LENIHAN: I also reviewed the

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[WITNESS: Lenihan]

1 order that allowed the acquisition, Pittsfield's
2 acquisition of the other three systems. And, in reviewing
3 that order, there was reference to the Company maintaining
4 records in such a fashion that the Company could track the
5 costs of the various systems.

6 BY MS. HOLLENBERG:

7 Q. When you say that you "relied on the cost of service
8 study", did you analyze the Company's cost of service
9 study?

10 A. No. Again, I did not fully analyze the Company's cost
11 of service study.

12 Q. And, would you agree that reconciliation, according to
13 RSA 378:29, is also applicable if the rates aren't
14 consolidated as the OCA is proposing? Would the rates
15 be reconcilable if the rates -- if they remained
16 consolidated, and not de-consolidated?

17 A. Oh, absolutely. Yes.

18 MS. HOLLENBERG: If I could just have a
19 minute?

20 (Atty. Hollenberg conferring with Mr.
21 Eckberg.)

22 MS. HOLLENBERG: I don't have any other
23 questions. Thank you.

24 CHAIRMAN GETZ: Ms. Spector?

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[WITNESS: Lenihan]

1 MS. SPECTOR: The Town of Pittsfield has
2 no questions.

3 CHAIRMAN GETZ: Mr. Ranaldi?

4 MR. RANALDI: Yes.

5 BY MR. RANALDI:

6 Q. In the way your thought process was going, did you take
7 in consideration that between now and March, when the
8 actual permanents is taken place, that the volume of
9 the water that's going to be used in the North Country
10 is going to be taken on by the permanent, and which is
11 about 60 percent in Locke Lake, and as far as what the
12 effects would be on them?

13 A. I'm not sure I understand your question.

14 Q. Well, you're saying to the Company that you agree that
15 they should get a temporary rate hike?

16 A. That's correct.

17 Q. Okay. But you're not objecting to the rate that
18 they're proposing?

19 A. That is also correct.

20 Q. So, should there be concern that the temporary rate
21 hike that they're proposing will be basically on
22 60 percent of the residents in Locke Lake, and not
23 100 percent?

24 A. Well, the rate, the temporary rate -- rates as proposed
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[WITNESS: Lenihan]

1 by the Company will be applied to all of the customers.
2 Now, some customers, by virtue of their -- of taking
3 service all year long, versus less than a full year,
4 will be taking less water. And, that presents a
5 problem to a number of small systems. I did have an
6 opportunity to attend the hearing up in North Conway,
7 and I did talk to a number of customers after the
8 hearing. And, Staff is fully aware of the problems
9 that can arise when a small system has a large
10 percentage of customers leave for a good portion of the
11 year and how that affects revenue and how it affects
12 the customers that are taking service on a full-time
13 basis. Staff is aware of that. Again, my
14 recommendation is for temporary rate purposes only.

15 Q. Is Staff concerned about the amount of capital
16 expenditures that's going to be attached to the volume
17 of water, rather than being, let's say, a fixed rate
18 that could be divided amongst more people?

19 A. Yes. Staff is very concerned about that.

20 Q. Then, wouldn't it be a benefit to North Country to,
21 rather than have the full burden placed upon them, even
22 on a temporary basis, to, as we go from here till when
23 we can discuss the permanent and get in more detail, to
24 have everyone share the cost amongst 2,700 customers?

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[WITNESS: Lenihan]

1 A. Yes, that is a concern. Again, but this is a temporary
2 rate proceeding. And, in order to suggest or provide
3 an alternative, it would be very time consuming, not
4 that Staff isn't willing to do that, it's just for the
5 purpose of today's proceeding, that information has not
6 been compiled. Because, basically, what Staff would be
7 doing is, for the purposes of a temporary rate
8 proceeding, is providing a position relative to a
9 permanent rate proceeding. And, this proceeding is
10 scheduled to continue until I believe it is March of
11 next year.

12 We understand, Staff is very, very aware
13 of the impacts of consumption by a significant number
14 of people who are not taking service on a year-round
15 basis. It is a concern.

16 Q. So, moving forward, wouldn't it be more beneficial for
17 those who are going to be impact by this that it be
18 based solely on operational costs, and maybe a very
19 small percentage on capital, so that way there that the
20 -- let's say the minimum impact for the ratepayers
21 would be minimal?

22 A. That would be, obviously, be an alternative. But I
23 don't believe, given the magnitude of the expenditures
24 by the Company, we heard earlier today I think half a
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[WITNESS: Lenihan]

1 million in one system and 1.3 million in another
2 system, unless the Company is afforded an opportunity
3 to earn something on that plant, that it just wouldn't
4 be healthy for the Company financially.

5 Q. Well, --

6 A. The Company is allowed a return on plant that's used
7 and useful and providing service to the customers.

8 Q. Well, wouldn't it be best that we keep it to a rate
9 that's affordable by the ratepayers in going forward,
10 before we make any mistakes, and that we keep it
11 together as a combined, rather than separating
12 ourselves? And, that way there the rates can be spread
13 out over the many going forward, and that way there
14 will give us enough time for everyone to sit down and
15 discuss and plan exactly where we should be going?

16 A. Well, I think we have an opportunity to sit down and
17 all the parties have an opportunity to sit down and
18 discuss where we're going in this proceeding during the
19 investigation of the rate case. Again, the final
20 recommendation to the Commission will be made next
21 spring. And, again, right now, at this point in time,
22 I don't have enough data, enough information to offer a
23 recommendation that may or may not come to fruition at
24 the end of this proceeding.

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1 Q. And, that's why I'm actually putting this question
2 forward, because I can't understand the rush to split
3 apart, this company in two, when we're still going
4 forward into a permanent, and, you know, a decision is
5 being made, and it's a major decision, if you're on the
6 North Country side, compared to the Pittsfield side,
7 and why there's a rush to separate? Especially since
8 not all records have been obtained by everybody in this
9 case and have been looked over.

10 CHAIRMAN GETZ: Mr. Ranaldi, now you're
11 making arguments.

12 MR. RANALDI: Okay. I'm sorry.

13 CHAIRMAN GETZ: And, you'll have an
14 opportunity in closing to state your position --

15 MR. RANALDI: Okay.

16 CHAIRMAN GETZ: -- with respect to what
17 you think we should or should not do. But --

18 MR. RANALDI: I was just wondering if
19 Staff had a reason to split, in that decision making, you
20 know, in their decision that they made. If they're
21 recommending that the split is okay --

22 CHAIRMAN GETZ: I think we've covered
23 this ground, but let's --

24 BY THE WITNESS:

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Lenihan]

1 A. Just quickly. First of all, I don't think there's any
2 rush in this proceeding. The Company, back in 2006,
3 acquired other systems, smaller systems. There was a
4 concern back when the companies were acquired that
5 there may be some subsidies occurring. The Company was
6 asked to maintain books and records in order to make a
7 determination as to whether or not to continue with the
8 single tariff for the four systems or to seek
9 alternatives. That's what the Company has done. The
10 Company has prepared a cost of service study, they
11 looked at on a system -- on a split between Pittsfield
12 and the three systems up north, and they looked at it
13 under a consolidated basis. I don't think there's any
14 rush. But, just for the purposes of this morning's
15 hearing, and for the purposes of implementing temporary
16 rates, which can and will be reconciled at the end of
17 the proceeding, I did not object to the manner in which
18 the Company has proposed to recover revenues. That may
19 not be Staff's recommendation come time to submit
20 testimony on a permanent rate level. But, just for the
21 purposes of the temporary rates, Staff did not object.

22 MR. RANALDI: I'm all set.

23 CHAIRMAN GETZ: Thank you. Mr. Smith?

24 MR. SMITH: Yes.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Lenihan]

1 BY MR. SMITH:

2 Q. Let's see if I understand things. The temporary rates
3 would apply from the 6th of June, until sometime like
4 probably April or May of 2009, is that correct?

5 A. That's my understanding. It would be for service
6 rendered on the 6th of May [June?], up until the time
7 of the permanent rate order.

8 Q. Okay. Now, if the Company needs to recover revenue to
9 operate, and if the allocation between the fixed and
10 usage portion of the charges doesn't take into account
11 the seasonal aspect, isn't there a high probability
12 there will be further revenue shortfall during the
13 period when the temporary rates apply?

14 A. That may occur, yes.

15 Q. Okay. Leaving a larger problem to be resolved with the
16 permanent rate adjustment?

17 A. There is no paucity of serious issues in this rate
18 proceeding.

19 Q. Excuse me, I didn't hear.

20 A. I said there is no paucity of serious issues in this
21 case.

22 Q. Okay.

23 A. All of which, hopefully, will be resolved at the time a
24 permanent -- a hearing on the permanent rates is held.

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Lenihan]

1 But there is, I agree with you, there is a significant
2 number of issues in this particular case.

3 Q. And, I guess, am I also correct in that whatever is
4 decided on temporary rates, the final resolution, after
5 the permanent rates are established, will correct for
6 differences?

7 A. It will correct for the differences in revenue the
8 Company sees, had experienced from temporary rates, and
9 the revenue the Company would see in permanent rates.
10 Yes, there would be a reconciliation.

11 MR. SMITH: Thank you. I don't have any
12 further questions.

13 CHAIRMAN GETZ: Any redirect?

14 MS. THUNBERG: No redirect. Thank you.

15 CHAIRMAN GETZ: Okay. Then, the witness
16 is excused. Thank you. Mr. Ranaldi.

17 MR. RANALDI: Good afternoon.

18 MS. THUNBERG: Mr. Chairman, just to
19 explain, because Mr. Ranaldi was unfamiliar with the
20 process, Staff volunteered to at least walk him through
21 his direct examination briefly.

22 CHAIRMAN GETZ: Okay.

23 MS. THUNBERG: Thank you.

24 (Whereupon Michael Ranaldi was duly

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 sworn and cautioned by the Court
2 Reporter.)

3 MICHAEL RANALDI, SWORN

4 DIRECT EXAMINATION

5 BY MS. THUNBERG:

6 Q. And, Mr. Ranaldi, if you could please state your name
7 and your affiliation with Locke Lake for the record
8 please.

9 A. My name is Michael Ranaldi. I'm President of the Board
10 of Directors of Locke Lake Association. And, I'm
11 custodian at the high school.

12 Q. Thank you. I'd like to show you what's been premarked
13 for identification as "Exhibit 6". And, please have
14 you identify that for the record.

15 A. Yes. This is my testimony that I did submit, before
16 the tech, technical.

17 Q. And, you prepared this testimony?

18 A. Yes, I did.

19 Q. And, if you were asked the questions that were asked in
20 this prefiled testimony today, would you adopt the
21 answers?

22 A. I would change a number of them, since the technical,
23 yes.

24 Q. And, my next question goes to what changes or
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 corrections, if you could outline those for the record
2 today?

3 A. Well, there could be a number of them, because, before
4 tech and before -- since then, I've been trying to
5 learn this, and it's been very difficult. And, a lot
6 of things have been going on outside of this. I even
7 had the passing of my mother through all this. And, I
8 have -- So, anyway, there's been a lot going on. And,
9 like one of the changes would be, for example, Mr. Ware
10 taught me a good lesson about depreciation expense, as
11 far as capital. And, basically, that's on Page 2. My
12 first question as far as capital expenditures, I would
13 change that, because he explained to me that the
14 principal was spread over 50 years. Then, on that, I'm
15 still concerned about the interest on all those notes
16 being only four or five years and ten years, I'm still
17 concerned about that.

18 So, I mean, there could be some others
19 in here that I -- I know I wasted a lot of people's
20 time already today, so --

21 Q. No, I'm just trying to get your positions out on the
22 record. And, just to highlight the concerns that Locke
23 Lake has, you just identified one is Locke Lake is
24 concerned about the interest rates on the loans, is
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 that correct?

2 A. Yes, it is. I'm very concerned about that, because
3 it's a lot of interest to bear for, you know, just
4 North Country, and on a short period of time. And,
5 when you see in these reports that there is state
6 funding based over 20 years, compared to 10 years, you
7 kind of wonder "well, what if there was a way to spread
8 out these costs even more and then spread to more
9 people, to keep that rate hike lower, whether it be
10 temporary or permanent."

11 Q. And, was another issue that is important to Locke Lake
12 the issue of how or what operational or capital
13 expenditures are included in the temporary revenue
14 increase?

15 A. Yes. On that, I am. In fact, I did relay a question
16 earlier about that. When you have a temporary rate
17 hike of 179 percent going forward, that -- even that is
18 quite a bit to people. And, in moving forward, I
19 always try to say "you're better off being more
20 cautious." And, if the operational costs are known for
21 a certain percentage increase, that could be part of
22 the temporary rate hike. And, yes, I understand that
23 the Company is looking forward to getting some of their
24 capital expenditures returned. But, to me, that should
 {DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 be more based on a fixed cost, rather than a cost
2 related to, you know, on water volume, which will hurt
3 the people even more. And, where the fixed costs can
4 be spread out to summer residents.

5 Q. Mr. Ranaldi, is it also -- does Locke Lake have a
6 position with respect to whether or not the Company
7 should be even awarded temporary rates?

8 A. Oh, I agree they should be awarded temporary rates.
9 But, like I said, it should be on a conservative type
10 of basis. I realize that, eventually, the people will
11 have to pay. I have no qualm about that. But I'm
12 looking at, you know, there's safety in numbers. And,
13 whether you had the capital expenditures today,
14 yesterday, or tomorrow, or next year, I mean, I haven't
15 heard anyone ask how long these rates will be good for.
16 So, in going forward, I'm not talking the temporary
17 rates, I know that, but the permanent rates, in moving
18 forward, I think it would be in everyone's best
19 interest to keep everyone together.

20 Q. Mr. Ranaldi, that was the extent of the line of
21 questioning that I had that you had reviewed.

22 A. I'm satisfied with that.

23 Q. And, my question was, to follow up, did you have
24 anything else to add?

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 A. No. Well, no, not at this time.

2 MS. THUNBERG: Thank you. Staff is
3 finished with direct.

4 CHAIRMAN GETZ: Okay. Let's, order of
5 cross, we'll start with Ms. Hollenberg, then go to
6 Mr. Smith, then Ms. Spector, Staff, and then the Company.
7 So, Ms. Hollenberg.

8 MS. HOLLENBERG: Thank you. I just have
9 a couple of questions. Good afternoon.

10 WITNESS RANALDI: Good afternoon.

11 CROSS-EXAMINATION

12 BY MS. HOLLENBERG:

13 Q. Just so that I understand your position, you believe
14 that the rates for temporary rate purposes should
15 remain consolidated?

16 A. Yes.

17 Q. And, you believe that the temporary rates should be
18 based on the known operational costs?

19 A. Yes.

20 Q. Plus some amount for capital investments?

21 A. Yes.

22 Q. And, you take the position that there should be some
23 accounting for seasonality, in terms of the customers
24 of the "North Country systems"?

{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 A. Yes. Based on capital expenditures, yes.

2 Q. You are the representative for Locke Lake Association
3 in this case, in addition to being the President of the
4 Association. And, I am wondering, I know our office is
5 getting a lot of phone calls from customers, and I'm
6 wondering whether or not you are hearing from customers
7 within Locke Lake about the rate increases and what
8 people are saying to you?

9 A. Well, it is sad, because, as soon as the announcement
10 way back when, when it first started, I know for a fact
11 that two older people on fixed incomes put their houses
12 up immediately for sale. And, one house has already
13 sold, while the other one is in dire need. And, I'm
14 going to tell you something. In going forward, I'm
15 very, very concerned, not only with us, but with the
16 Company also. And, the way that, when we're going
17 through this, and we get to the end, I kind of wonder
18 what good is a rate hike, when there isn't that many
19 people to pay it and how soon will we have to be back
20 here to redo it? So, they have been saying, yes, they
21 -- a lot of people have come up to me, and they are
22 scared. I am.

23 Q. Thank you. Just one other question, I guess. Could
24 you tell me what exactly, I mean, the amount -- I take

[WITNESS: Ranaldi]

1 from your answer that people are concerned about the
2 amount of the rate increase?

3 A. Yes, they're concerned.

4 Q. And, why are they concerned about the amount of the
5 rate increase?

6 A. Well, in -- I don't know about the rest of the North
7 Country, in Locke Lake, it's a, first of all, you have
8 to understand something. We're located in Barnstead,
9 New Hampshire. And, not -- this has nothing to do with
10 the rate hike, but we have a police office -- we have a
11 police station where they can't book people, because of
12 the conditions inside the police station. So, they
13 have to take them out of town. So, they needed a new
14 police station. They have a town hall that's almost
15 considered unhealthy, where they tried to pass two
16 years in a row to build a new town hall. And, they do
17 have school problems, as far as an elementary school,
18 which got repaired last year. And, they got a fire
19 department that is the only fire department that is
20 private in this state that they want to take over. So,
21 knowing all that, and then having this on top of that,
22 they are scared, very scared.

23 Q. Do you know how the individuals who live in the Locke
24 Lake community heat their homes?

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[WITNESS: Ranaldi]

1 A. Well, after the tornado, which hit quite a few of our
2 homes, and some people have started to rebuild, a lot
3 of them are wood, oil, and gas. And, it's pretty well
4 mixed. But the problem is that we have a mixed bag,
5 sort to speak, and what I mean by that is you have
6 people that are on fixed income and families. And,
7 naturally, like I said, you have the summer people.
8 But it's a very peculiar situation in Barnstead.

9 Q. And, do you have a sense or not about whether or not
10 there -- what the percentage of individuals who live in
11 that community work within the same community or work
12 outside of the community?

13 A. Well, I don't really have an answer to that. I mean, I
14 know quite a few people that do construction, mostly
15 related type of businesses. I can't honestly say.

16 Q. That's fine.

17 A. Okay.

18 MS. HOLLENBERG: That's fine. Thank
19 you. I don't have any other questions.

20 CHAIRMAN GETZ: Mr. Smith?

21 MR. SMITH: A couple questions.

22 BY MR. SMITH:

23 Q. There's some percentage of full-time residents and then
24 part-time residents, and you've made comments about how
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[WITNESS: Ranaldi]

1 the residents of Locke Lake view the rate increase. Is
2 it the same for both the full-time and part-time
3 residents or is it different?

4 A. As far as how much they pay or --

5 Q. No, their reaction.

6 A. Oh. Their reaction? Oh, yes, they're basically the
7 same. In fact, more and more houses that, let's say,
8 are going up on the market that used to be summer, I
9 think those are starting to increase. That the summer
10 people are trying to get out, knowing what's coming
11 down the road. But, in the way the conditions are
12 right now, I know that there's a lot people that are in
13 a tough, tough position.

14 Q. Okay.

15 A. So, they're all basically the same.

16 MR. SMITH: You already answered the
17 other question, which was the houses that are up for sale,
18 were they predominantly summer residents? I don't have
19 any further --

20 BY THE WITNESS:

21 A. No, there's a mixture of summer and full-time people
22 that are trying to sell. A lot of foreclosures. Some
23 houses have actually been abandoned and just left.

24 MR. SMITH: Okay. Thank you. No

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[WITNESS: Ranaldi]

1 further questions.

2 CHAIRMAN GETZ: Ms. Spector?

3 MS. SPECTOR: Mr. Ranaldi, hello.

4 BY MS. SPECTOR:

5 Q. You testified that you believe the temporary rates
6 should be based on the operational costs and also on
7 some of the capital expenditures, is that correct?

8 A. Yes, it is.

9 Q. And, how much of the capital expenditures?

10 A. Oh, I don't know. I'm not the accountant here, that's
11 for sure.

12 Q. And, you also indicated that there should be some
13 consideration of seasonal customers?

14 A. Yes.

15 Q. How do you propose that should be done?

16 A. Well, during, when they're up here, some of it should
17 be volume, but a lot of it, especially on the capital
18 expenditures end of it, should be on some type of fixed
19 rate. Because, I don't know about a lot of the North
20 Country, but a lot of the work that had to be done, and
21 I'm sure Mr. Ware would know even more than that, some
22 of it had to be done because we didn't have, during the
23 summer, what they call peak months, some of us didn't
24 have good water getting into our house. In fact, July
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 4th, if you weren't up by 4:00 in the morning to get a
2 shower, you weren't going to get a shower until, you
3 know, something like 12:00 midnight, that's how bad it
4 was. So, you know, I'd say some should be more like a
5 fixed type.

6 Q. But, again, you're speaking in generalities, you don't
7 have a specific amount that should be allocated to
8 fixed versus usage?

9 A. Well, on the allocation as far as the capital, I don't
10 know what type of recourse the Company has to try to
11 spread out those interest rates. But, if there was a
12 way, the further they could spread it would be better.
13 And that, if we're going to talk about the temporary
14 rate hike, I would love to see the minimum amount,
15 because, like I said, there is a fear up there where I
16 am, and I'm sure where other people are. As far as
17 what they should be, I don't know. You know, they're
18 better at that than I am.

19 Q. Why do you think that the customers in Pittsfield
20 should be obligated to absorb the cost of capital
21 improvements in the North Country systems, when they
22 haven't benefited from those improvements in any way?

23 A. Well, in a way, I think you're wrong; in a way you're
24 right. Well, the more people that live in Barnstead
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[WITNESS: Ranaldi]

1 shop in Pittsfield, for one thing. And, if you have
2 more empty homes, there will be less people going to
3 Pittsfield. As far as sharing the cost, you know, what
4 goes down the ladder and back up the ladder, if we have
5 a newer system, and you have an older system,
6 eventually you may need our help going forward. And, I
7 know that it might not be next year or the next year,
8 but, as our depreciation lessens, and our cost lessens,
9 yours may increase, and we would help you in return.
10 So, I'm a believer that there's safety in numbers, and
11 to spread out the costs is better for everyone. And,
12 if some day you ran into a situation in Pittsfield,
13 where you had \$2.5 or \$3.0 million worth of capital
14 expenditures, I would expect to help you out also.

15 MS. SPECTOR: Okay. Thank you. I have
16 no other questions.

17 CHAIRMAN GETZ: Ms. Thunberg.

18 MS. THUNBERG: Yes.

19 BY MS. THUNBERG:

20 Q. Mr. Ranaldi, you had, during your direct examination of
21 the company witnesses, had handed out a document.

22 A. Yes.

23 Q. And, we had marked this for identification as "Exhibit
24 7". And, I just wanted to ask you, how did you create
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 or did you create this document?

2 A. Yes, I put all those together.

3 Q. Would you like to --

4 A. No, you can -- Basically, what happened was, I didn't
5 know what I was doing. And, I had to make some phone
6 calls on how this proceeding happened. So, basically,
7 in the past -- well, since yesterday, what I did is I
8 had a stack of papers. And, I had to go through them
9 to see what I needed, that I thought was important and
10 made copies, because I was told I needed all these
11 copies. And, so, since last night I put this together,
12 thinking these would be my questions I would be asking.
13 That's what I did.

14 Q. With respect to the typewritten pages, can you explain
15 where you obtained those?

16 A. Well, all the paperwork that everyone sent me. Some of
17 it came from Annual Reports of 2007 from Pittsfield and
18 Pennichuck. So, it's a mixture of places. And, some
19 of these responses from questions pertaining to those
20 that I got this.

21 Q. And, with respect to the hand notes that appear in this
22 stack of documents, can you please explain who made
23 those?

24 A. Well, I did this. When I see numbers, I go through
{DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 them, and I'm trying to teach myself what you people
2 are trying to see or what I can't see. So, like the
3 8.4 percent, I'm trying to figure out how you get
4 there. And, you know, so, I mean, I got a sheet that I
5 was -- I wrote down on an envelope that I have 12
6 copies of, but I was embarrassed to put this with this,
7 because it explained how I couldn't figure out, if you
8 say that you have 646 customers and 1,100 customers,
9 and then you break it down to 1,600 customers -- well,
10 I'm sorry, 646 accounts to 1,600, and how you work
11 this. I used this to try to teach me something.

12 MS. THUNBERG: No, I appreciate you
13 answering the origination of this document.

14 WITNESS RANALDI: Okay.

15 MS. THUNBERG: And, that's the extent of
16 Staff's questioning. Thank you.

17 CHAIRMAN GETZ: Ms. Knowlton.

18 BY MS. KNOWLTON:

19 Q. Mr. Ranaldi, you testified that, under the prior
20 ownership of the Locke Lake system, that residents were
21 unable to take showers particularly during the 4th of
22 July weekend for an extended period of time during the
23 day. Has your service improved, your water service, in
24 terms of the supply of water coming into your home
 {DW 08-052} (Re: Temporary Rates) {10-07-08}

[WITNESS: Ranaldi]

1 since --

2 A. Oh. Yes. We --

3 Q. Let me just finish, get the whole question out, and

4 then I very much appreciate your chance to answer.

5 Since Pittsfield Aqueduct Company has taken over the

6 system?

7 A. Okay. No, we have no problems with the Company, as far
8 as what they have done and where they intend to take us
9 to. We appreciate that. And, I'm sure I can speak for
10 other parts of North Country maybe. It's just that,
11 how we went, going from that point where we started, my
12 concern was, in the beginning, how we went from this
13 point to the point we are now. And, that's where I
14 have the problem. The problem isn't the service. The
15 problem isn't the updates that were made. The problem
16 isn't the attitude of the Company. It's -- The problem
17 that we are facing is, when we start this step going
18 forward, we knew that we had a bad company before you
19 people came here. We knew that. And, we know that we
20 have a nice company now. We know that. Like I said,
21 the problem was going forward and how we, especially on
22 the financing part of it and moving forward. That's
23 where the problem is.

24 MS. KNOWLTON: I have no further

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[WITNESS: Ranaldi]

1 questions for Mr. Ranaldi.

2 CHAIRMAN GETZ: Thank you. Is there
3 anything further you'd like to say?

4 WITNESS RANALDI: This is my summation?

5 CHAIRMAN GETZ: Well, you can do your --
6 you'll have a chance for a closing statement, but just in
7 terms of --

8 WITNESS RANALDI: No. Then, I'm all set
9 as far as --

10 CHAIRMAN GETZ: Okay. All right. Then,
11 you're excused. Thank you. Okay. It's my understanding
12 that's the completion of testimony in this case. Is there
13 any other procedural items, before we address the exhibits
14 and allow an opportunity for closing statements?

15 (No verbal response)

16 CHAIRMAN GETZ: Okay. Hearing nothing,
17 is there any objection to striking identifications and
18 admitting the exhibits into evidence?

19 MS. THUNBERG: None.

20 MS. HOLLENBERG: Actually, if I could
21 just make a statement about the cost of service study?
22 The Office of Consumer Advocate does object to the cost of
23 service study being admitted for the truth of it. We are
24 willing to allow the Commission to receive it and to

{DW 08-052} (Re: Temporary Rates) {10-07-08}

1 accept the fact that the Company based its opinion on the
2 cost of service study, but not that the actual cost of
3 service study has been vetted for the purposes of whether
4 or not it represents an accurate representation of the
5 cost of service in those systems. We do not believe that
6 there is a need to supplement the Company's or the Staff's
7 testimony, because the positions of those two parties are
8 the same as are put forth in their prefiled testimony.
9 And, I do not believe that the further testimony today
10 about the cost of service study, in addition to the cost
11 of service study being reviewed by the Commission
12 substantively, is appropriate for purposes of temporary
13 rates.

14 CHAIRMAN GETZ: Are you actually moving
15 to strike certain parts of the testimony today then?

16 MS. HOLLENBERG: I believe that I've
17 spoken before about my objection to testimony as to the
18 reasons that the Company feels as though deconsolidation
19 of the rate is an appropriate direction, and, in part,
20 they testified about basing their opinion on the cost of
21 service study, and also went into discussing differences
22 between the systems. And, I would let those objections
23 speak for themselves about the testimony. But I would
24 move that the Commission not allow in the cost of service

1 study exhibit for the truth of the matter.

2 CHAIRMAN GETZ: Ms. Knowlton, do you
3 have a response?

4 MS. KNOWLTON: The cost of -- I
5 disagree, and would request that the Commission do admit
6 the cost of service study in this case. It's certainly
7 been on file here since May. All of the parties,
8 including the OCA, was provided with the cost of service
9 study, we had a technical session where it was discussed.
10 We've had extensive, actually, discovery in this case,
11 and, in particular, by OCA, which submitted 83 data
12 requests on temp. rates in this docket, which, frankly, I
13 can say is unprecedented for this company to have that
14 many data requests from one party on a temporary rate
15 basis. So, I feel like there's been plenty of opportunity
16 to ask questions about anything that was filed as part of
17 this case and to vet -- vet questions.

18 You know, as I indicated, when
19 Ms. Hollenberg initially stated her objection, you know,
20 the Company, in all fairness to everyone in this docket,
21 submitted both the consolidated -- the cost of service
22 study on a consolidated basis, as well as teased apart
23 into the two rate groups, and on the basis that we thought
24 that information would be helpful for the Commission, as

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1 well as all of the parties to see. So, I think it's
2 beneficial and appropriate to include in the record in
3 this case. And, I think I'll leave my response to that.

4 CHAIRMAN GETZ: Was it filed --

5 MS. HOLLENBERG: Commissioner, I'm sorry
6 can I just -- okay.

7 CHAIRMAN GETZ: I just want to make sure
8 I understand. Was it part of the first filing? Where is
9 it in --

10 MS. KNOWLTON: It was filed on --

11 CHAIRMAN GETZ: It says "May 2008".

12 MS. KNOWLTON: -- May, let me just, I
13 have the cover letter here. It was filed with -- okay.
14 The cost of service study was filed with the Commission on
15 May 12th, 2008. The rate case itself was submitted to the
16 Commission on May the 2nd, 2008.

17 CHAIRMAN GETZ: I see it. Thank you.
18 Okay. Ms. Hollenberg.

19 MS. HOLLENBERG: If I could just make
20 one quick comment. The cost of service study was
21 submitted in support of the proposed permanent rates.
22 And, the Company has provided different schedules to show
23 the impact for permanent rate purposes if the rate systems
24 remain consolidated versus separated. But there is no --

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1 there is no such presentation for the purposes of
2 temporary rates.

3 MS. KNOWLTON: Okay, one more thing and
4 then I'll stop. Which is, I just want to note that,
5 again, I mean, OCA took extensive discovery in this case,
6 and they didn't limit their discovery to the Company's
7 temporary rate filing. For example, one of the OCA data
8 requests, 1-5, asked discovery about the Company's
9 testimony in support of permanent rates. You know, we
10 didn't object to that, we answered it. You know, we'll
11 answer questions about and have answered questions about
12 any aspect of the filing. So, I don't think that, you
13 know, OCA is in a position today to be arguing that the
14 cost of service study, which has been on file here for
15 months, should not -- is not appropriately entered into
16 evidence here today.

17 CHAIRMAN GETZ: Okay. Thank you.

18 MS. THUNBERG: Staff, I guess, needs a
19 point of clarification here from OCA. Because, when I
20 heard the objection, I didn't hear an objection from OCA
21 as to striking the identification and admitting it as full
22 evidence, what I -- into evidence. The objection I heard
23 was, to the extent the cost of service study was being
24 used in a detailed way, that they objected to it being

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1 used on its face to support anything, because they have
2 not had a chance to challenge the document itself. So, if
3 we are just moving forward with identifying or striking
4 the identification and moving them as full exhibits, Staff
5 does not see that there's a problem. But, perhaps, I'm
6 missing the characterization of the objection. Thank you.

7 CHAIRMAN GETZ: Well, I took it that,
8 and I think I'm similar to Ms. Thunberg, that you're not
9 objecting to striking identification and admitting into
10 evidence, but your issue goes to the weight that will be
11 given it?

12 MS. HOLLENBERG: Indeed. I object to it
13 being accepted as -- for the truth of what it represents.
14 I think that the Company has testified today at least that
15 they relied on it in making their proposal for temporary
16 rates. And, it shows the basis for the Company's
17 position. But I disagree that it should be taken for the
18 truth of it. And, I would just also say that, I mean, I
19 think, you know, in addressing the Company's
20 characterizations of our amount of data requests, the --

21 CHAIRMAN GETZ: Okay. Well, let's get
22 off that issue.

23 MS. HOLLENBERG: Could I just say one
24 thing please? You know, the purpose of a temporary rate

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1 hearing is to assess what the Company needs in terms of a
2 reasonable revenue requirement, and it doesn't involve an
3 assessment, because we're going to do that later for
4 permanent rates, it doesn't involve an assessment of the
5 level that is required for permanent rates. Thank you.

6 (Chairman Getz and Commissioner Below
7 conferring.)

8 CHAIRMAN GETZ: All right. This is what
9 we're going to do. I'm going to admit it into evidence.
10 I believe it's relevant to the proceeding, believe it's
11 not prejudicial to any party. Does provide the underlying
12 rationale for the position taken by the Company. I will
13 also recognize we'll give it the weight it's due,
14 recognizing there's been no witness has come forward to
15 sponsor this exhibit at this time. So, then, we'll strike
16 the identifications and admit all the exhibits into
17 evidence with that caveat.

18 In terms of closing statements, let's
19 start with Mr. Smith, and then we'll go Mr. Ranaldi, Ms.
20 Spector, Ms. Hollenberg, Staff, and the Company. Mr.
21 Smith.

22 MR. SMITH: Okay. Well, we feel that
23 the Company has done a good job in trying to maintain and
24 improve the water system at Birch Hill, and that they are

1 entitled to some temporary rate increase. Our concern is
2 the allocation between the fixed and usage charge, to
3 address the issue of the part-time residents that we've
4 heard about today. And, I don't know how to do that, what
5 the options are in terms of splitting into a separate rate
6 structure for the North Country users versus the Town of
7 Pittsfield. But, as I say, more of a concern to us is the
8 allocation between the fixed and usage charges of the
9 rate. I think the Company has made a conscientious effort
10 to seek alternate funding sources, and have not been
11 successful for various reasons.

12 I don't really think there's anything
13 else I have to say.

14 CHAIRMAN GETZ: Thank you. Mr. Ranaldi.

15 MR. RANALDI: Well, first of all, I
16 thank you for your patience with me today. I have four,
17 four things. First of all, it's about the funding, which,
18 from the time the Company first started to where we are
19 today, I wish there were ways to spread out the costs, but
20 I know that doesn't have anything to do with the temporary
21 rate hike. But I do have a problem with the fixed
22 expenses, which I would call "operational" -- I mean, I'm
23 sorry "capital expenditures", compared to operational
24 expenditures. And, that, if you're going to start with a

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1 temporary rate hike, I beg that you go with an operational
2 expense, as far as giving them what they need to operate,
3 which is fair, and also a percentage on their capital
4 return, which I think a minimum amount, so that way there
5 won't be as much suffering or, you know, let's say,
6 hardship for those that are in the North Country.

7 Thirdly, I hope we don't divide up the
8 systems right now, and I hope we don't at all. And, to
9 divide it now, and then try to put it back together and
10 explain to people why you put it back together, could
11 cause problems. And, if there is no problems in the
12 beginning, where we just say "okay, here are the temporary
13 rates hikes for now", and moving forward, it would be a
14 lot easier and simpler. And that, if you do divide, and
15 then you decide not to divide, it would be harder to
16 explain why. So, there's reasoning to keeping it together
17 for that purpose. The second purpose is, I believe, that
18 there is, as I said on the stand, there's safety in
19 numbers, and that we should all share. Because now, in
20 going forward, there's going to be a time when Pittsfield
21 may need us. And, well, I'd just make that point.

22 As far as what the rates should be, as
23 far as operational, I mean, there are lot better people
24 here that can explain that or come up with a number. The

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1 179 percent, it's a scary number to these people that
2 you're about to say "here you are." And, the way the
3 conditions are today, where I am, and I'm sure where other
4 people are, there's a lot of homes that are up for sale
5 now. Some were forced, some are because they're scared,
6 some because they just have to get out. And, houses
7 aren't selling. They're not selling where I am, for a
8 number of reasons. I stated a few up there, what's
9 happening in the town. Some people know about this water
10 rate increase that's due upon us, and some people aren't
11 going to touch our homes because they don't know what's
12 going to happen.

13 You're in a very difficult spot, I know
14 that. And, I know the Company is, I know everyone here
15 is. I can only go on the basis of being conservative,
16 going forward, and trying to do what's best for everybody.
17 And, to go off any type of beaten course at this
18 particular time and junction, and I'll tell you something,
19 even today, getting Exhibit 3 from the Company, which I
20 haven't even looked at yet, I don't know what more I can
21 say. I just hope I did a good enough job with my appeal.
22 That's it. Thank you.

23 CHAIRMAN GETZ: Thank you. Ms. Spector.

24 MS. SPECTOR: Thank you. In docket

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1 number 05-132, the Commission will recall that Pittsfield
2 was very concerned about potential subsidization issues
3 when Pittsfield Aqueduct Company proposed to acquire the
4 three North Country systems. And, it was for that reason
5 that this Commission required that the expenses be tracked
6 separately for the Pittsfield and North Country systems.
7 The purpose of that, as set forth in the order, was so
8 that, when we came back for a rate case, we could make a
9 determination as to whether there was subsidization
10 happening and whether we needed to have a split rate.

11 Pittsfield's concerns, as it turns out,
12 have been borne out. Pittsfield Aqueduct Company
13 testified today that, if there's a blended rate, it will
14 result in significant and undue subsidization by the
15 Pittsfield customers. If there's a blended rate,
16 Pittsfield will face a 94 percent increase on a temporary
17 basis, as opposed to a 33 percent increase. It's simply
18 unfair to Pittsfield customers to have blended rate and to
19 continue the subsidization, which has already begun.

20 Therefore, Pittsfield asks that, if the
21 Commission approves the temporary rate, that it approves
22 the split rate as proposed by the Company and as agreed to
23 by Staff. Thank you.

24 CHAIRMAN GETZ: Ms. Hollenberg.

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1 MS. HOLLENBERG: Thank you. As the
2 Commission and the parties are aware, temporary rates are
3 set according to statute RSA 378:27, which allows the
4 Commission to set reasonable temporary rates sufficient to
5 yield a reasonable return on the costs of property used
6 and useful in the public service, as shown by the reports
7 filed, on file with the Commission. The Supreme Court has
8 recognized that the setting of temporary rates involves a
9 less stringent standard and a more expeditious process
10 than that required for the determination of permanent
11 rates. Even Staff, in its testimony today, and in its
12 prefiled testimony, recognize that they didn't have enough
13 time or data to make an alternative recommendation to the
14 Company's proposal. Specifically, Mr. Lenihan testified
15 that he has not yet analyzed the Company's cost of service
16 study. RSA 378:27 contains no provision for making
17 changes to the way temporary revenue increases are
18 collected. Presumably, any request to reallocate the
19 revenue impact should be considered pursuant to the
20 requirement, statutory requirement that rates be just and
21 reasonable.

22 The OCA objects to the proposed
23 deconsolidation of the PAC systems for the purposes of
24 temporary rates. Too much is at stake to temporarily

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1 alter a past rate structure so drastically based on only a
2 preliminary inquiry. As Staff witness Mr. Lenihan
3 testified, "there is no paucity of serious issues in this
4 case." And, the OCA agrees with that assessment. The
5 consolidation of PAC systems and rates into the Pittsfield
6 system and rate and the North Country system and rate
7 would significantly increase the rates paid by the
8 customers in Birch Hill, Locke Lake, and Sunrise Estates.

9 The Commission has heard from some of
10 the customers in these systems, in written comments, and
11 at the public statement hearings, that, and today through
12 Mr. Ranaldi, that the proposed rate increases will create
13 a hardship given their financial circumstances, the
14 already high cost of living these days, and the
15 anticipated high costs of energy in this coming winter.

16 Also, the proposed deconsolidation of
17 the PAC systems appears to conflict with the Commission's
18 standing practice and policy to consolidate small water
19 systems and rates to mitigate the impact of costly
20 investments required to provide safe and adequate water.

21 Given the cursory nature of the review
22 and analysis required by law, as well as the circumstances
23 of this case, the temporary rate phase constitutes an
24 inappropriate context within which to make such drastic

1 changes to rate design and rates, as well as to Commission
2 policy. Also, based on the record, Staff and Company have
3 not sustained their burden of proving that the proposed
4 deconsolidation is just and reasonable. Because the
5 Company's revised cost of service study is based upon the
6 premise of splitting the systems, the OCA does not agree,
7 for temporary rate purposes, to the redesign proposal
8 contained therein, which a couple of the intervenors have
9 referred to as allocating more of the increased revenue to
10 seasonal versus permanent customers.

11 Until the Company's rate filing is fully
12 investigated, the OCA urges the Commission to maintain the
13 consolidated rate structure of the PAC systems and rates.
14 The OCA's recommendation that the Commission not make
15 changes to PAC's rate design is consistent with the
16 recommendations of Commission Staff and with the
17 Commission's decisions in some recent cases.

18 In DG 08-009, National Grid New
19 Hampshire's pending rate case, Commission Staff agreed
20 with the OCA and the Company that the Company's proposed
21 rate design changes would not be incorporated for purposes
22 of temporary rates. The Commission approved this
23 agreement in Order 24,888, and stated "Under this
24 settlement, the temporary rates are to be recovered under

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1 the currently effective rate design, rather than the rate
2 design proposed in the Company's filing. We find that
3 temporary rates provided in the Settlement Agreement to be
4 reasonable."

5 Also, in DW 07-038, a rate case
6 involving Pennichuck East Utility, an affiliate of PAC,
7 the Commission approved temporary rates under the current
8 rate design, despite the filing of the Company's --
9 despite the filing by the Company of a cost of service
10 study. In Order 24,784, the Commission stated "For the
11 purpose of temporary rates, Staff, PEU, and OCA recommend
12 that we maintain PEU's present rate design, pending
13 application of the results of PEU's most recent cost of
14 service study. And, with respect to applying the rate
15 increase equally to all customers, it is reasonable, given
16 that Staff and the Parties have not had time to evaluate
17 PEU's most recent cost of service study fully. In the
18 meantime, the reconciliation mechanism found in RSA 378:29
19 will protect customers in the event we decide that
20 permanent rates should be applied in a manner different
21 from that applicable to temporary rates."

22 Lastly, I'll just note that, in DW
23 06-099, a rate case involving Hanover Water Works, despite
24 a Company proposal to change the allocation of its revenue

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1 requirement, Staff agreed with the OCA and the Company
2 that temporary rates would be collected according to the
3 existing rate design. In Order 24,710, the Commission
4 stated "The signatories agree that, for purposes of
5 temporary rates, it is reasonable to maintain the
6 Company's present rate design and to recover the revenue
7 increase resulting from the agreement from all customers
8 on a equal percentage basis." The Commission then
9 concluded that "The proposed rate design is appropriate,
10 just and reasonable, and that the reconciliation mechanism
11 found in RSA 378:29 would adequately protect customers in
12 the event that it decided different permanent rate
13 increases."

14 The OCA asks the Commission to take
15 administrative notice of the settlement agreements and
16 orders in these cases. As it did in these other cases,
17 the OCA also asks the Commission to approve temporary
18 rates for PAC customers under the current rate design. As
19 in these other cases, if the temporary revenue increase is
20 collected under the Company's current rate design, the PAC
21 customers, including those in Pittsfield, are protected by
22 the reconciliation mechanism authorized by RSA 378:29.

23 Thank you.

24 CHAIRMAN GETZ: Okay. Well, let me just

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1 note with respect to the request for administrative
2 notice. I don't think we need to take the official act of
3 taking administrative notice, if this is -- your citations
4 are comparable to citations you would make in a brief, and
5 we can take notice of those citations. Ms. Thunberg.

6 MS. THUNBERG: Yes. Thank you,
7 Mr. Chairman. After that, Staff is not going to object to
8 OCA's closing statement, because the Commission does have
9 a lot of or recognize has much leeway in accepting closing
10 statements, but Staff would just like to note that if
11 those concerns had been expressed in testimony, perhaps
12 that would have been more helpful to this docket, rather
13 than waiting and putting it in a closing statement.

14 But, with that, Staff does concur with
15 the Company's request for a temporary increase in its
16 revenues. Staff has reviewed the reports on file with the
17 Commission and agrees that the Company is earning a
18 negative rate of return, and that that needs to be
19 corrected.

20 Here we are presented with a company
21 that is in need of additional revenue. The overall
22 temporary increase proposed by the Company is 75 percent
23 of the overall rate of return that it's proposing of 7.03,
24 and this is less than the Commission's last found

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1 authorized rate of return of 8.42 percent. Staff believes
2 this revenue increase and the allocation of the proposed
3 revenue through the rates is just and reasonable.

4 As for the effective date, Staff has
5 reviewed the publication notices, and agrees that June 6
6 is the date notice was completed to all customers, and
7 thus Staff believes making temporary rates effective June
8 6 is reasonable.

9 Parties to this docket, including Staff,
10 will be reviewing the capital expenditures and operating
11 expenses of the Company, and these are issues to be sorted
12 out during the permanent rate phase of the docket. Staff
13 will also be reviewing the levels of cross-subsidies
14 between Birch Hill, Sunrise Estates, Locke Lake, and
15 Pittsfield -- and the Pittsfield system, in hopes of
16 arriving at an amicable solution. Staff is aware of the
17 pain in this economy the customers are now facing with the
18 necessary capital improvement costs. And, Staff sees this
19 case as presenting an opportunity to think outside of the
20 box and incorporate new rate design elements. But, again,
21 this is an issue for permanent rates and Staff will be
22 presenting testimony on later in this docket.

23 And, in summary, Staff concurs with the
24 Company's request for the temporary rate revenue amount

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1 and rate -- rates charged in the bifurcated North Country
2 and Pittsfield systems as proposed. Thank you.

3 CHAIRMAN GETZ: Ms. Knowlton.

4 MS. KNOWLTON: Thank you. The Company
5 has proposed temporary rates in this docket, and there's
6 been -- I have not heard any dispute this morning
7 regarding the revenue requirement that the Company seeks
8 for its temporary rate request. The Staff is in agreement
9 with the Company's proposal. The Town of Pittsfield has
10 indicated that it does not object to it. And, I have not
11 heard any -- any testimony questioning the underlying
12 revenue requirement that the Company is proposing that the
13 Commission approve here. So, I would start with that
14 point, which is I would ask that the Commission approve
15 that revenue requirement as proposed by the Company and
16 agreed to by Staff.

17 I think the only issue that we're
18 hearing dispute about today is the rate design. And, I
19 would agree that there is no question that this case
20 presents complex issues of rate design and how to pursue
21 that. The Company, in its judgment, believed that the
22 most equitable way to proceed for temporary rates was to
23 divide the residential customers and have these two rate
24 groups, residential in the North Country, because that's

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1 the only type of customer that exists, and, in Pittsfield,
2 there's residential, as well as fire protection, both
3 private and municipal, into a second rate group. And,
4 felt that that was equitable, given, you know, the fact
5 that there was \$2.3 million that was spent among these
6 North Country systems, and only, you know, slightly less
7 than \$350,000 spent in Pittsfield. And, felt that it was
8 not appropriate, knowing that going into the case, to have
9 that kind of subsidy if we maintain the current rate
10 design going forward.

11 You know, OCA has taken the position
12 that that's not -- they don't think that's appropriate. I
13 would note that OCA is here today representing residential
14 ratepayers, regardless of where they're located, whether
15 in the North Country or Pittsfield. And, I'm curious
16 whether OCA is getting calls from customers in Pittsfield
17 saying "Sure, I have no problem subsidizing the people in
18 the North Country. Let's keep the current rate design in
19 effect." We haven't heard, and the OCA didn't present
20 testimony, there was no evidence in the record about the
21 nature of the phone calls that they received. But I would
22 say that that's just an example of the rate design issues
23 that this case poses.

24 But, again, the Company proposed this

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1 two -- separation into two rate groups, because it is
2 concerned about its customers, and, in particular, it's
3 concerned about recoupment in this case, at the end of the
4 day, when permanent rates are put into effect, and there's
5 some reconciliation that takes place and rate shock. And,
6 you know, if we end up in a situation where we do have two
7 rate groups, and we start out in this case with
8 consolidated rates, it will be a significant recoupment
9 that will come from the North Country customers. And,
10 that's very concerning to the Company. So, it is, in
11 large part, for that reason that the Company has put this
12 proposal forward.

13 Ultimately, it's the Commission's
14 determination. And, certainly, you know, we look forward
15 to exploring all of the issues involving rate design in
16 this case, as well as other issues. We'll bring Mr. Palko
17 in to talk with the parties and perhaps to testify before
18 this Commission. But we do believe that there is a basis
19 in the record to support this division now for purposes of
20 temporary rates. I do believe that the Company's request
21 is just and reasonable, and it certainly is necessary,
22 given the testimony that, from the Staff and from the
23 Company, that the Company is in a very significant
24 negative earning situation. You know, being 1,200 points,

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1 over 1,200 points below your allowed return is not the
2 appropriate place for the Company to be. It's
3 confiscatory, and the Company does need a rate increase as
4 soon as possible, you know, to turn that situation around,
5 frankly.

6 So, for those reasons, you know, we
7 would request that the Commission approve temporary rates
8 effective June 6th, 2008. And, we would recommend and ask
9 that the Commission approve the separation into the two
10 rate groups. And, again, finally, to approve the revenue
11 requirement in its entirety as proposed by the Company.
12 Thank you.

13 CHAIRMAN GETZ: Okay. Then, thank you,
14 everyone. We will close the hearing today and take the
15 matter under advisement.

16 (Whereupon the hearing ended at 1:34
17 p.m.)

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