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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

June 3, 2009 - 10:11 a.m.
Concord, New Hampshire

NHPUC JUN29'09 PM 3:28

RE: DW 08-065
HAMPSTEAD AREA WATER COMPANY:
Notice of Intent to File Rate Schedules.
(Hearing regarding permanent rates)

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Hampstead Area Water Company:
Robert C. Levine, Esq.

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

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

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

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 JAYSON P. LaFLAMME
 STEPHEN R. ECKBERG

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P R O C E E D I N G S

1
2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DW 08-065,
4 concerning the Hampstead Area Water Company. On June 25,
5 2008, Hampstead filed schedules and materials seeking a
6 proposed rate increase to annual revenues by \$167,000, or
7 13.77 percent. And, on September 3, 2008, the Commission
8 held a prehearing conference, and subsequently the Company
9 filed an amendment to its petition requesting temporary
10 rates. Temporary rates were approved by an order issued
11 January 16, 2009. A procedural schedule was approved for
12 the proceeding on September 30 that was subsequently
13 revised, contemplating a hearing on permanent rates, which
14 is the subject of the hearing today. And, we have a
15 stipulation that was filed on May 27 by the Company,
16 Staff, and the Consumer Advocate.

17 Can we take appearances please.

18 MR. LEVINE: Good morning,
19 Commissioners. Robert Levine, appearing for the Company.
20 With me is Stephen St. Cyr, a consultant, our Controller,
21 John Sullivan, Harold Morse, President of the Company, and
22 Christine Lewis-Morse, Vice President of the Company.

23 CHAIRMAN GETZ: Good morning.

24 CMSR. MORRISON: Good morning.

1 MS. HOLLENBERG: Good morning. Rorie
2 Hollenberg and Stephen Eckberg, here for the Office of
3 Consumer Advocate.

4 CHAIRMAN GETZ: Good morning.

5 CMSR. MORRISON: Good morning.

6 MS. THUNBERG: Good morning,
7 Commissioners. Marcia Thunberg, on behalf of Staff. And,
8 with me today is Mark Naylor, Jayson LaFlamme, and Doug
9 Brogan. We do have some preliminary matters to discuss,
10 and they relate to exhibits. So, perhaps we should wait
11 for Commissioner Below to return?

12 CHAIRMAN GETZ: He'll be right back, so
13 we can proceed with the procedural issues.

14 MS. HOLLENBERG: Okay. I've been the
15 appointed person to do that this morning.

16 CHAIRMAN GETZ: Okay.

17 MS. HOLLENBERG: We want to call to the
18 attention that, subsequent to filing the Settlement
19 Agreement, the OCA requested a couple of changes be made
20 to the Settlement Agreement, which the parties have agreed
21 on. So, we do have a -- with two minor changes, we have a
22 revised document for the Commission to look at this
23 morning.

24 CHAIRMAN GETZ: Okay.

1 MS. HOLLENBERG: And, these are agreed
2 to. They have been initialed. We just marked up the
3 original document in handwriting.

4 (Atty. Hollenberg distributing
5 documents.)

6 MS. HOLLENBERG: And, just to point
7 these changes out to you, they appear on Pages 4 and 5 of
8 the Settlement Agreement. The first change is to
9 Paragraph B.1, and it's striking the second sentence.
10 And, the second change is to Page 5, in Paragraph B.3.
11 And, it's the addition of a reference to "RSA 369" and the
12 word "and", before the word "Puc 608.05".

13 I'm happy to answer any questions that
14 you might have about these changes, but they were changes
15 that the OCA felt were important to it in terms of
16 reflecting its agreement in this case.

17 The other thing that I will mention to
18 you is that the proposed Settlement Agreement does ask for
19 action by the Commission on a petition for approval of
20 financing that the Company filed May 15th. This has yet
21 to be docketed. It was very important to the OCA during
22 this proceeding that the Company take this step and make
23 this filing as a separate matter, and that this filing be
24 publicly noticed. And, we do appreciate the Company's

1 response to that request. We jointly ask that the
2 Commission separately docket this financing petition.
3 And, when it makes its ruling on that financing petition,
4 we would ask that the Commission issue it on a *nisi* basis,
5 so as to give the public a period of notice following the
6 Commission's ruling, because it has yet to be noticed.

7 Those are the only procedural matters.
8 Thank you.

9 CHAIRMAN GETZ: Thank you.

10 MS. HOLLENBERG: Oh, excuse me. I'm
11 sorry. I did forget to mention an important point on the
12 order *nisi*, and that is the agreement of the parties is
13 that the order *nisi* be issued contemporaneously with the
14 permanent rate order in this matter.

15 MS. THUNBERG: And, all Staff was going
16 to clarify was that OCA, with respect to the Petition for
17 Approval of Financing, is speaking on behalf of a joint
18 recommendation, not only of their office, but of Staff and
19 the Company.

20 CHAIRMAN GETZ: Okay. Thank you.

21 MR. LEVINE: That's correct.

22 CHAIRMAN GETZ: All right. Will we be
23 having a panel on the Stipulation?

24 MS. THUNBERG: Yes. It is the intent of

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 the parties to put on a panel of Steve Eckberg, Steve
2 St. Cyr, and Jayson LaFlamme, if they can be presented at
3 this point. Thank you.

4 CHAIRMAN GETZ: Please proceed.

5 (Whereupon Stephen P. St. Cyr, Jayson P.
6 LaFlamme and Stephen R. Eckberg were
7 duly sworn and cautioned by the Court
8 Reporter.)

9 STEPHEN P. ST. CYR, SWORN

10 JAYSON P. LaFLAMME, SWORN

11 STEPHEN R. ECKBERG, SWORN

12 DIRECT EXAMINATION

13 BY MS. HOLLENBERG:

14 Q. Good morning, panelists. Mr. Eckberg, if you could
15 please state your full name for the record. Thank you.

16 A. (Eckberg) Good morning. My name is Stephen R. Eckberg.

17 Q. And, by whom are you employed?

18 A. (Eckberg) I'm employed by the New Hampshire Office of
19 Consumer Advocate as a Utility Analyst.

20 Q. And, you filed testimony, prefiled testimony in this
21 proceeding?

22 A. (Eckberg) Yes, I did.

23 Q. I'd like to show you a copy of your testimony. If you
24 could just state whether or not that is a copy of your

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 testimony filed in this proceeding?

2 A. (Eckberg) Yes, it looks like it is.

3 Q. And, is it true and accurate to the best of your
4 knowledge?

5 A. (Eckberg) Yes, it is.

6 Q. Do you have any changes to make to this testimony
7 today?

8 A. (Eckberg) Not at this time.

9 Q. And, if you were asked these questions today, would
10 your answers be the same?

11 A. (Eckberg) Yes, they would.

12 MS. HOLLENBERG: Thank you. I'd like to
13 have this marked as "Exhibit 4" please.

14 CHAIRMAN GETZ: It will be so marked.

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

18 MS. HOLLENBERG: Thank you.

19 BY MS. THUNBERG:

20 Q. And, Mr. LaFlamme, I'd like to pick up with you please
21 and have you please state your name and -- please state
22 your name for the record.

23 A. (LaFlamme) My name is Jayson LaFlamme.

24 Q. And, can you please describe your position and

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1 responsibilities with the Commission?

2 A. (LaFlamme) I am an Analyst with the Gas and Water
3 Division of the New Hampshire Public Utilities
4 Commission. I mainly look at the accounting/finance
5 aspects of rate filings and requests for loan approvals
6 that come before the Commission by water and sewer
7 utilities.

8 Q. And, Mr. LaFlamme, have you participated in this docket
9 since its inception?

10 A. (LaFlamme) Yes, I have.

11 Q. And, are you familiar with the exhibits that have been
12 identified and admitted thus far into this docket?

13 A. (LaFlamme) Yes, I am.

14 Q. Did part of your review of this docket include
15 reviewing audit reports?

16 A. (LaFlamme) Yes.

17 Q. Did it also include reviewing and conducting discovery
18 on the Company?

19 A. (LaFlamme) Yes.

20 Q. Mr. LaFlamme, I'd like to show you a document and have
21 you identify it for the record please.

22 A. (LaFlamme) This is the Stipulation Agreement between
23 the Company, the Staff, and the Office of Consumer
24 Advocate that is being presented to the Commission in

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 this hearing.

2 Q. And, did you participate in the preparation of this
3 document?

4 A. (LaFlamme) Yes, I did.

5 Q. And, are you familiar with the terms of this document?

6 A. (LaFlamme) Yes, I am.

7 Q. And, are you also familiar with the changes that
8 Attorney Hollenberg had made note of this morning?

9 A. (LaFlamme) Yes.

10 MS. THUNBERG: And, Commissioners, Staff
11 would like to have this Stipulation marked for
12 identification as "Exhibit 5" please.

13 CHAIRMAN GETZ: So marked.

14 (The document, as described, was
15 herewith marked as **Exhibit 5** for
16 identification.)

17 BY MR. LEVINE:

18 Q. Good morning, Mr. St. Cyr. What is your name and
19 business address?

20 A. (St. Cyr) My name is Stephen P. St. Cyr. And, the
21 business address is 17 Sky Oaks Drive, Biddeford,
22 Maine.

23 Q. And, what is the name of your company?

24 A. (St. Cyr) Stephen P. St. Cyr & Associates.

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 Q. And, can you describe what services your company
2 provides?

3 A. (St. Cyr) The company provides accounting, tax,
4 management, and regulatory services, primarily to
5 utilities.

6 Q. Have you prepared testimony before this Commission?

7 A. (St. Cyr) Yes.

8 Q. And, have you participated in this docket from its
9 inception?

10 A. (St. Cyr) Yes.

11 Q. Are you familiar with the exhibits that have been used
12 in this docket?

13 A. (St. Cyr) Yes.

14 Q. And, what is the purpose of your testimony?

15 A. (St. Cyr) The purpose of my testimony is to assist the
16 Company in gaining PUC approval of its requested rate
17 increase, as well as the financing associated with the
18 2008 additions, and the refinancing of the Company's
19 debt.

20 Q. And, what was the scope of your involvement with the
21 rate request?

22 A. (St. Cyr) I prepared the financial schedules and the
23 testimony in the initial filing. I worked with the
24 Company in responding to data requests. I worked with

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 the parties in resolving the issues that led to the
2 presentation of this Stipulation this morning.

3 Q. Have you had an opportunity to review the Stipulation
4 submitted and the schedules prepared by Staff?

5 A. (St. Cyr) Yes.

6 Q. Are you aware of any changes or corrections that ought
7 to be made to this document?

8 A. (St. Cyr) Yes, there's two changes I'd like to bring to
9 the Commission's attention. The first one is on Page
10 5. This is Paragraph 2, the "TD Bank Refinancing". In
11 the middle of that paragraph, it says "an interest rate
12 that is 280 basis points", that should be revised to
13 reflect "300 basis points". It would now read "an
14 interest rate that is 300 basis points above the 5 year
15 Federal Home Loan Classic Advance Rate", in parentheses
16 it says "6.26 percent" as of "03/16/09". That rate
17 would currently be "6.49 percent".

18 The second correction is to Attachment
19 JPL-9, Schedule 1. These were actually Pages 41
20 through Page 50. As noted at the bottom of all these
21 pages, in parentheses it says "Amounts have not been
22 audited by the New Hampshire PUC Staff". These amounts
23 have since been audited, and the Commission's Audit
24 Staff determined that the amounts are accurate as

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 reflected here on the schedules.

2 MR. LEVINE: Thank you, Mr. St. Cyr.

3 BY MS. THUNBERG:

4 Q. And, Mr. LaFlamme, I'd like to pick up with you first
5 and have you start walking through some of the
6 provisions of the Stipulation Agreement. And, in
7 particular, on Page 2, the "Permanent Rate Revenue
8 Requirement", if you could turn to that page please.
9 And, if you could please explain what level of revenue
10 requirement the settling parties are proposing?

11 A. (LaFlamme) Yes. The parties are proposing a revenue
12 requirement, annual revenue requirement of \$1,310,082.
13 The calculation of which is summarized on Attachment
14 JPL-1, Schedule 1, which is Page 8 to the Stipulation
15 Agreement, and provides for an 11.22 percent increase
16 over proforma annual water revenue for the test year.

17 MS. THUNBERG: Okay. And, for the
18 record, Commissioners, I'd like to just note that the
19 JPL-1 through JPL-8, those attachments appear on Pages 8
20 through 40.

21 BY MS. THUNBERG:

22 Q. Now, Mr. LaFlamme, in this paragraph it talks about the
23 Settling Parties are adjusting the customer count, to
24 have a customer count reflected as of 2008. And, I

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1 wanted to get Staff's explanation as to why Staff felt
2 this was reasonable?

3 A. (LaFlamme) Okay. Actually, the adjustment was to
4 adjust the consumption, the consumer consumption, as
5 well as the customer count, to the 2008 level. This
6 was in response to that it was reported by the Company
7 that the -- that the customer consumption level had
8 decreased since the test year used in this case was
9 2007 and was lower in 2008. So, it was agreed by the
10 parties to use the 2008 consumption level, as well as
11 the 2008 customer count.

12 Q. Now, Mr. LaFlamme, on the schedules that are attached
13 to the Stipulation, at the top, in the right-hand
14 corner, most of them say "Attachment JPL". Did you
15 create these attachments?

16 A. (LaFlamme) Yes.

17 Q. I'd like to have you turn to Page 8 of the Stipulation,
18 to Attachment JPL-1, and it's entitled "Revenue
19 Requirement". And, if you could just please walk
20 through for the record the components of the revenue
21 requirement.

22 A. (LaFlamme) It starts off with the proforma rate base
23 amount of \$3,704,979. The calculation of which is
24 found on Schedule 2 of Attachment JPL-1. To that rate

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 base amount, a rate of return of 6.05 percent was
2 applied, to come up with an operating income
3 requirement of \$224,007. The test year -- proforma
4 test year operating income amount was determined to be
5 \$91,855. Using that amount, as compared to the
6 operating income requirement amount, shows that the
7 Company has a revenue deficiency of \$132,152. And,
8 that ends up being the revenue deficiency added to the
9 proforma annual water revenues of \$1,177,930, to come
10 up with the proposed revenue requirement of \$1,310,082.

11 Q. Now, the rate of return here is "6.05", is that
12 correct?

13 A. (LaFlamme) Correct.

14 Q. And, can I have you turn to Page 14 please? That's
15 Schedule 3 of JPL-1, and it's entitled "Weighted
16 Average Cost of Capital". And, I'd like to have you
17 just put into the record how the rate of return was
18 arrived at.

19 A. (LaFlamme) We started out with the unadjusted amounts
20 of the debt, the Company's debt, which was \$3,205,855.
21 And, the equity component of the Company's capital
22 structure was -- shows a deficit amount of \$283,766.
23 So, actually, for purposes of calculating the revenue
24 requirement for permanent rates, only the debt portion

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[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 of the capital structure was considered. To that there
2 were adjustments made, which are indicated on the
3 following two pages, identified as "Schedule 3a" of
4 Attachment JPL-1. And, there the adjustments are
5 explained in the footnotes on Page 16. All in all, it
6 resulted in a reduction in the debt component by 200 --
7 approximately \$229,000. And, so, there was -- the
8 adjusted long-term debt component is now \$2,976,526.
9 And, the cost rate, also determined on Schedule 3a, was
10 6.05 percent. And, that is the rate of return that was
11 used in the determination of permanent rates being
12 presented.

13 Q. Thank you, Mr. LaFlamme. With respect to Page 8 and
14 the proforma rate base of 3 million, did you arrive at
15 that after making adjustments, looking at the audit
16 reports and discovery?

17 A. (LaFlamme) Yes.

18 Q. And, those adjustments appear on Pages 10, 11, 12, and
19 13, is that correct?

20 A. (LaFlamme) That is correct.

21 BY MR. LEVINE:

22 Q. Mr. St. Cyr, I'd like to ask you if you recall if there
23 was an order in this docket concerning temporary rates?

24 A. (St. Cyr) Yes, there was. It was Order Number 24,932,

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 dated January 16, 2009. The order approved the then
2 current rates as temporary rates. The temporary rates
3 are effective on a service rendered basis as of
4 September 1, 2008.

5 Q. What is the effect of that order?

6 A. (St. Cyr) There was no effect on rates at the time.
7 Once permanent rates are approved by the Commission, it
8 will be necessary to reconcile the difference between
9 temporary rates and permanent rates.

10 Q. Are there any requests for step increases in this
11 docket?

12 A. (St. Cyr) Yes, there are two. The first step increase
13 involves post test year additions to rate base and
14 operating expenses. In addition to that, the Settling
15 Parties also agree and recommend that the effects of
16 the two debt financings and the conversion of
17 affiliated accounts payable to equity, which I'll
18 discuss later, be recognized as part of that first
19 step.

20 The second step increase involves the
21 costs associated with the Company's interconnection.
22 Those costs and the financing related to them were
23 approved in docket DW 08-088.

24 Q. Turning your attention to the Step Increase 1, can you

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 describe that request and what its components are?

2 A. (St. Cyr) There are five components. The first is the
3 recovery of and the return on a portion of the 2008
4 plant additions. That amounts to \$61,249. The second
5 piece is the recovery of and the return on the cost of
6 -- on the cost of drilling for the Dearborn Ridge well.
7 The third piece is the recovery of and the return of
8 the cost associated with the 2008 ice storm. The
9 fourth component is the annual cost associated with the
10 conversion of the Company's billing from quarterly to
11 monthly. And, the fifth and final component is also
12 related to the conversion of the quarterly to monthly
13 billing, and reduces the amount of time the Company
14 receives cash, and thereby reduces the cash working
15 capital component of rate base.

16 Q. Were there any effects due to the debt financing and
17 the conversion to debt to equity, which are part of
18 this step increase?

19 A. (St. Cyr) Yes. The Company factored in those two, the
20 two debt financings and the conversion into this step
21 as well.

22 Q. As to the first component, can you describe the 2008
23 plant additions?

24 A. (St. Cyr) Yes. They're actually identified on Page 43.

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 Q. Those are the schedules that Mr. LaFlamme prepared?

2 A. (St. Cyr) Yes. They include pumps, SCADA, a filter,
3 sampling stations, and a pressure reducing station.

4 Q. Are those components in service?

5 A. (St. Cyr) Yes.

6 Q. Can you describe the component regarding the Dearborn
7 well costs?

8 A. (St. Cyr) Yes. This is reflected on Page 45. It's a
9 component of miscellaneous deferred debits. The
10 Company incurred the cost of \$21,927 drilling this
11 particular well. The well proved to be unproductive.
12 And, the Company and the parties have agreed that the
13 Company would be allowed to recover this over a 20-year
14 period.

15 Q. Also, on this schedule, there's a line item component
16 regarding the "2008 Ice Storm" costs. Can you describe
17 what that involves?

18 A. (St. Cyr) Yes. This was the December 2008 ice storm.
19 The Company lost all external power to its systems. It
20 rented two large generators from its affiliate, Lewis
21 Builders Developer. It also rented five generators
22 from three other contractors. The costs reflected here
23 are the costs of those generators. And, the Company
24 and the parties have agreed and recommend to the

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[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 Commission that those costs be recovered over a
2 three-year period.

3 Q. Now, you mentioned previously that the Company is
4 converting from quarterly to monthly billing. Can you
5 describe the costs and effects associated with that
6 conversion?

7 A. (St. Cyr) Yes. Those costs are shown on Page 47.
8 They're reflected in test year expenses. There's a
9 \$27,469 [\$27,456?] charge associated with labor, and a
10 \$19,092 associated with supplies. And, the Company
11 currently bills on a quarterly basis. It reads meters
12 and produces bills on a quarterly basis. With a switch
13 to the monthly billing system, it will now read meters
14 twelve times a year, it will generate bills twelve
15 times a year. And, these are the costs associated with
16 those. The conversion actually took place in June 1 of
17 this year.

18 Q. You also mentioned previously that there was a decrease
19 in the amount of time the Company realizes cash. Can
20 you explain that please?

21 A. (St. Cyr) Yes. That reduction is shown on Page 44.
22 And, what this does is recognize that the Company is
23 receiving cash more quickly. And, as a result of
24 receiving cash more quickly, is in a position to pay

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 bills more readily, and reduces the amount of time
2 that's factored into the cash working capital
3 component.

4 Q. Are there other costs to the Company to be included in
5 the Step Increase 1?

6 A. (St. Cyr) The other costs are the costs associated with
7 the financing, actually, the two financings, the
8 financing of the 2008 additions and the refinancing of
9 the Company's debt.

10 Q. Can you summarize the impact of the Step Increase 1
11 before we get into the financings?

12 A. (St. Cyr) Yes. That is actually summarized on Page 41.
13 What we have is an addition to rate base, which
14 includes the 2008 plant in service, it includes the
15 miscellaneous deferred debits associated with the ice
16 storm and the Dearborn well. It's offset by the
17 reduction in the cash working capital. That proforma
18 rate base amounts to \$41,286. Apply the proforma rate
19 of return, we have an operating income requirement to
20 which we then add the increase in the operating and
21 expenses. The net of all of that is an increase in
22 revenue of \$61,757, which represents a 5.24 percent
23 increase.

24 Q. Now, is this rate increase resulting from this Step 1

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[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 to be reconciled with temporary rates?

2 A. (St. Cyr) No, it is not. The reconciliation between
3 temporary rates and permanent rates would not include
4 this step adjustment.

5 MR. LEVINE: Thank you, Mr. St. Cyr.

6 BY MS. THUNBERG:

7 Q. Mr. St. Cyr, I had a couple of follow-up questions, if
8 I could just turn your attention back to Page 43. And,
9 it's the listing of the plant additions. If you could
10 just please describe what is "SCADA"?

11 A. (St. Cyr) It's a system whereby the Company is able to
12 monitor what's taking place in a pump station from a
13 remote location, primarily, the Company's headquarters.

14 Q. Thank you. With respect to the 21,000 for the well
15 that was drilled at Dearborn Ridge, do you know why the
16 well was drilled?

17 A. (St. Cyr) It was drilled in an effort to provide an
18 additional source of supply.

19 Q. I'm sorry. What did you say?

20 A. (St. Cyr) To provide an additional source of supply.

21 Q. Has DES requested Hampstead pursue an increase in
22 source of supply?

23 A. (St. Cyr) Yes.

24 Q. In your experience in working with water companies

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 before the Commission, had this well produced water,
2 would it be your expectation that the Commission would
3 allow it into rate base?

4 A. (St. Cyr) Yes.

5 Q. And, Mr. LaFlamme, I'd like to turn to you please, with
6 respect to the section on the step increase. Now, on
7 Page 2 of the Stipulation, it talks about Items Number
8 4 and 5, "conversion from quarterly to monthly billing"
9 and "a reduction in cash working capital" with respect
10 to the conversion. Are these things that would
11 normally be proforma adjustments, but I'm just -- I
12 guess I'm asking you a leading question. Is it Staff's
13 opinion that they should be treated as a step
14 adjustment, because they orderly would be allowed in,
15 but, for the timing of them, we didn't want them to be
16 reconciled with temporary rates. Is that a fair
17 characterization?

18 A. (LaFlamme) Yes. The costs related to the conversion
19 from quarterly to monthly billing were originally
20 proposed by the Company in their filing to be included
21 in the proforma test year, as it was anticipated that
22 they would be -- that this conversion would occur in
23 2008, which was within the 12-month period subsequent
24 to the test year, where proforma adjustments are

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1 normally allowed for permanent rates. But, being that
2 this conversion did not occur until actually the year
3 2009, it was agreed upon by the parties to instead
4 include these costs as part of the step adjustment, so
5 that they would not be part of the reconciliation of
6 permanent and temporary rates.

7 Q. Appreciate that explanation. I'd like to just ask you
8 a clarification with the Dearborn Ridge and the 20 year
9 recovery period. Could you just please explain how the
10 20 year recovery period was arrived at?

11 A. (LaFlamme) The Dearborn Ridge, the cost of drilling the
12 Dearborn Ridge well was financed by a loan from
13 Hampstead Area Water Company's affiliate, Lewis
14 Builders Development, Inc. And, the term, the
15 repayment term of that loan was 20 years. So, the
16 recovery period was -- the recovery period was
17 implemented so that the -- so that it would coincide
18 with the repayment term of the loan from Lewis
19 Builders.

20 Q. Thank you. Now, with respect to the Dearborn Ridge and
21 the well drilling, do you have an opinion as to whether
22 these expenses were prudently and legitimately
23 incurred?

24 A. (LaFlamme) Yes.

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 Q. And, what is that opinion?

2 A. (LaFlamme) It's Staff's position that these costs were
3 prudently and legitimately incurred by the Company.

4 Q. Now, if this well had been producing water, would Staff
5 have recommended it being included in rate base?

6 A. (LaFlamme) Most likely, yes.

7 Q. And, there were, on Page 43, a detailed listing of the
8 61,000 of plant additions. Do you have an opinion as
9 to the prudence as to those expenditures?

10 A. (LaFlamme) Yes. It's Staff's position that these
11 expenditures were prudently and legitimately incurred.
12 And, that's primarily based upon the fact that the
13 Commission's Audit Staff has reviewed these costs and
14 has submitted a report dated May 29th, 2009. And,
15 there were no exceptions noted by the Audit Staff with
16 regard to these costs.

17 Q. And, with respect to the report that you just
18 mentioned, I'd like to show you a document and have you
19 identify it for the record please.

20 A. (LaFlamme) This is the Final Audit Report concerning
21 the items that are included in Step 1, and dated May
22 29th, 2009.

23 MS. THUNBERG: Commissioners, I'd like
24 to have this document marked for identification. I

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1 believe it's "Exhibit 6".

2 CHAIRMAN GETZ: It will be so marked.

3 (The document, as described, was
4 herewith marked as Exhibit 6 for
5 identification.)

6 BY MS. THUNBERG:

7 Q. And, Mr. LaFlamme, earlier you had heard Mr. St. Cyr
8 testify that, with respect to the JPL-9 series of
9 schedules, that the notation at the bottom "Amounts
10 have not been audited by New Hampshire PUC Staff", it's
11 this document, this Exhibit 6, that is the audit of
12 these costs, is that correct?

13 A. (LaFlamme) That is correct.

14 Q. And, Mr. LaFlamme, I just have a final question with
15 respect to the 61,000, the 21,000, and 22,000 that
16 Staff and the Settling Parties are proposing be
17 allowed. Is it -- Do you have an opinion as to
18 whether, if these were not allowed in to the Company's
19 rate base, whether that would have a detrimental impact
20 on the Company's rate of return?

21 A. (LaFlamme) Given the relative magnitude of these costs
22 with respect to the Company, we believe that, if these
23 -- if the Company was not allowed to recover these
24 costs through rates, it would have a detrimental impact

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1 upon the Company.

2 BY MR. LEVINE:

3 Q. Mr. St. Cyr, I would like to turn your attention to the
4 customer rate impact that would be occasioned by these
5 permanent revenues contained in the rate request and
6 the Step Increase 1. Could you briefly describe what
7 that would be if the Commission approved it?

8 A. (St. Cyr) Yes. That actually can be seen most clearly
9 on Page 40 and Page 50. If you look at Page 40, this
10 is a Report of the Proposed Rate Changes. And, I'll
11 draw your attention to the meter size "5/8ths meter",
12 where the Company has proposed, and the parties have
13 agreed to, is an annual base rate of "\$120" per year,
14 or \$10 per month. In addition to that, the consumption
15 rate, on a permanent rate basis, is the "\$4.02".

16 If you then look at Page 50, this is the
17 Report of Proposed Rate Change related to the Step 1
18 increase. The Company and the parties are not
19 proposing any change to the base rate. We're adding
20 that particular increase in the revenue requirement to
21 the consumption rate. That's an additional "27 cents"
22 per ccf. When you add that to the \$4.02, you end up
23 with a combined rate of \$4.29 per ccf. On an average
24 residential customer basis, that turns out be

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1 approximately \$457 per year. This represents an annual
2 increase of roughly 66 percent [dollars?] over the
3 present rate.

4 Q. Now, do you, sir, have an opinion concerning whether or
5 not the proposed rates are just and reasonable?

6 A. (St. Cyr) Yes, they are, in my opinion, just and
7 reasonable.

8 Q. Can you describe the terms proposed in the Stipulation
9 regarding the Step Increase 2 concerning the
10 interconnection?

11 A. (St. Cyr) The schedules related to Step Adjustment 2
12 are found on Page 51 through 59, identified as
13 "Attachment JPL-10.

14 Q. Mr. St. Cyr, before you get into that, going back to
15 the previous question. In your answer, did you say
16 that it was an increase of "\$66" or "66 percent"?

17 A. (St. Cyr) \$66.

18 Q. Thank you. You may continue. You were turning to
19 Page 51.

20 A. (St. Cyr) I guess, if you look to Page 53, this is
21 Schedule 2a. This is the additions to plant. It's
22 roughly \$1.1 million, consisting mostly of mains. The
23 \$1.1 million is offset by an anticipated
24 interconnection grant amounting to 270,000. That

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1 amount is identified on Page 58 [52?]. The net of the
2 two amounts essentially represent the rate base
3 component of approximately 800,000. The interest rate
4 on this loan, this is the State Revolving Fund loan, is
5 3.74 percent. When you apply the interest rate to the
6 rate base of 800,000, you have an operating income
7 requirement of roughly \$30,000. In addition to that,
8 you have the operating expenses associated with the
9 project, primarily depreciation, offset by the
10 amortization of CIAC, plus the addition to taxes other
11 than income, principally property taxes. When you add
12 the operating expense component to the return, it
13 results in a revenue requirement of \$61,061. And, that
14 amount of additional revenue would represent a
15 5.18 percent increase in rates.

16 MR. LEVINE: Commissioners, at this
17 point in time, just as a point of clarification, I would
18 like to make an offer of proof concerning the status of
19 this project. It arises from docket number 08-088. It is
20 anticipated that this project will be completed in
21 November 2009. The financing is being submitted for
22 approval to the Governor and Council. We're hoping to get
23 on the docket for June. The construction needs to be
24 completed by November 15th, as that's when New Hampshire

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1 DOT closes down the roads. This interconnection runs
2 along Route 121, which is a state road.

3 If, for some reason, the Governor and
4 Council does not reach us until later in the summer, this
5 may occasion a delay in and substantial completion of the
6 interconnection into 2010. But we don't anticipate that
7 or to be even likely that it will not be substantially
8 complete by November 2009. So, at that point in time,
9 we'll be able to submit the documentation concerning the
10 Step Increase 2.

11 CHAIRMAN GETZ: Thank you.

12 BY MR. LEVINE:

13 Q. Mr. St. Cyr, following up on that, this last point, it
14 is anticipated that the Company will submit, upon
15 substantial completion, the cost associated with this
16 interconnection?

17 A. (St. Cyr) Yes. Once the project is completed, and the
18 costs are finalized, the Company would submit its
19 actual cost to the Staff and the OCA for review. The
20 Company would also submit its proposed revenue
21 requirement associated with the actual cost. And, the
22 parties would have an opportunity to review and make a
23 recommendation with respect to what that amount should
24 be based on the actual cost.

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[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 Q. Will this rate increase resulting from Step 2 have any
2 impact on temporary rates?

3 A. (St. Cyr) No, it will not.

4 Q. Now, Mr. St. Cyr, you had mentioned or heard mentioned
5 concerning financings by the Company, which have been
6 filed in a separate docket. Can you describe what
7 those financings are?

8 A. (St. Cyr) Yes. There's two financings. The first one
9 is the financing associated with the 2008 additions to
10 plant. The Company actually incurred \$94,232 of plant
11 additions, only a portion of which is being reflected
12 in Step 1 and part of rate base. But it borrowed that
13 amount of money from its affiliate, Lewis Builders
14 Developer. And, those particular projects are in
15 service and --

16 Q. What are the terms of the financing note?

17 A. It's a 20 year term, 2.25 percent over Prime Rate.
18 That would put the current rate at 5.5 percent. That
19 amount would be payable on a monthly basis.

20 Q. That would be payable to Lewis Builders Development,
21 Inc.?

22 A. (St. Cyr) That's correct.

23 Q. Now, there is a second financing component?

24 A. (St. Cyr) Yes. With interest rates being what they are

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 today, the Company has had some conversations with TD
2 Banknorth. The bank has made a commitment to finance
3 \$1.45 million. This would be a financing that would
4 substantially refinance all of the existing debt to the
5 affiliates, Lewis Builders and Lewis Builders
6 Developer.

7 Q. And, what are the terms of that Banknorth financing?

8 A. (St. Cyr) It's a 20 year note. The interest rate would
9 be 300 basis points over the 5 year Federal Home Loan
10 Bank Classic Advance Rate. That rate would be adjusted
11 every five years. The proposed refinancing saves the
12 Company approximately \$33,000 in interest costs. The
13 Company would anticipate, once it receives Commission
14 approval, that it would take that approval to the bank
15 and have a closing and refinance the \$1.45 million.

16 Q. Now, you mentioned that this is a 20 year amortization,
17 but it is, in fact, a 5 year note?

18 A. (St. Cyr) Yes.

19 Q. Now, has the Company received that loan commitment?

20 A. (St. Cyr) Yes, it has.

21 Q. Is there anything else concerning the debt to equity
22 structure of the Company that you wish to mention?

23 A. (St. Cyr) The Company believes that this will have a
24 positive effect on its capital structure. The Staff

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 and the Commission have -- has expressed a past -- has
2 expressed concerns in the past about the debt-to-equity
3 ratio. The Company has, in fact, made significant
4 contributions for additional paid in capital in recent
5 years. But, even with those contributions, the
6 debt-to-equity ratio was still leaning more towards
7 debt. With the conversion of this accounts payable to
8 equity, it strengthens the Company's capital structure,
9 it reduces the obligation to pay the accounts
10 receivable *per se*, and puts the Company in a better
11 position financially.

12 Q. Do you recall the amount of the conversion?

13 A. (St. Cyr) The amount is 991 -- I'm sorry, \$990,353.

14 Q. And, what will the -- what will be the result of the
15 conversion of this accounts payable? How will it be
16 treated on the Company's books?

17 A. (St. Cyr) It would be treated as additional paid in
18 capital.

19 Q. Is that an equity account?

20 A. (St. Cyr) Yes, it is.

21 Q. Now, has the Company made further agreements regarding
22 accounts payable?

23 A. (St. Cyr) The Company has also agreed that its accounts
24 payable would not extend beyond a 12-month period.

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 MR. LEVINE: At this point,
2 Commissioners, I'd like to make a record request that I be
3 allowed to submit subsequently a copy of the proposed note
4 for \$94,232 and a copy of the Banknorth loan commitment.

5 CHAIRMAN GETZ: Okay. We will reserve
6 Exhibit 7 for the loan commitment.

7 (Exhibit 7 reserved)

8 MS. HOLLENBERG: Could you just -- I'm
9 sorry, could you just repeat what's going to be filed? I
10 just didn't hear.

11 MR. LEVINE: The proposed note for the
12 94,232 and a copy of the Banknorth commitment.

13 BY MS. THUNBERG:

14 Q. Mr. LaFlamme, I just have a couple of follow-up
15 questions for you. You heard Mr. St. Cyr go through
16 the rate impact section. And, I just would like to get
17 Staff's opinion as to the just and reasonableness of
18 the permanent rate increase that's proposed for about
19 \$4.00, and then the Step 1 proposed increase of 27
20 cents. If you could opine on that please.

21 A. (LaFlamme) It's Staff's opinion that the rates being
22 proposed resulting from the revenue requirements
23 calculated for permanent rates and the first step
24 adjustment are just and reasonable.

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 Q. Now, I'd like to move on with you for the "2008-2009
2 Financing" section. That's Section B on Page 4 of the
3 Stipulation. And, there's a sentence in there that
4 says that "Staff and Hampstead Area Water Company agree
5 that it is just and reasonable for Hampstead Area Water
6 Company to borrow \$94,000." And, I just wanted to get
7 on the record Staff's opinion as to why this financing
8 is in the public interest?

9 A. (LaFlamme) Staff believes that the financing is in the
10 public interest because the -- that particular
11 financing was used to make necessary improvements to
12 the -- to Hampstead Area Water Company's system for
13 providing safe and adequate -- a safe and adequate
14 water supply to its customers. And, therefore, the
15 financing that was available from Lewis Builders
16 Development enabled the Company to make these
17 improvements. And, therefore, it's Staff's opinion
18 that that financing is reasonable.

19 Q. And, I'd like to just get your opinion also on the TD
20 Banknorth refinancing, and please explain Staff's
21 opinion as to why that refinancing is in the public
22 interest?

23 A. (LaFlamme) Staff believes that that financing is in the
24 public interest mainly based upon the fact that it will

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 result in a reduction in the cost of debt incurred by
2 the Company. And, as Mr. St. Cyr indicated, it is
3 anticipated that this refinancing will result in a
4 savings of over \$30,000 in interest cost for the
5 Company. And, those costs will -- should be realized
6 by the customers as well.

7 Q. And, you said that that savings will occur. Is that
8 beneficial to customers?

9 A. (LaFlamme) Yes.

10 Q. And, has that -- that savings already been included in
11 the schedules that you produced for this Stipulation
12 Agreement?

13 A. (LaFlamme) Yes. In the determination of the revenue
14 requirement for Step Number 1, those savings have been
15 included in the determination of the revenue
16 requirement for Step Number 1.

17 Q. And, Mr. St. Cyr, I'd like to turn to you. I believe
18 we may have skipped over sequentially in the
19 Stipulation Agreement the rate case expenditure. And,
20 while I have it before me, I just wanted to ask you
21 what Hampstead Area Water Company is agreeing to do
22 with respect to rate case expenses?

23 A. (St. Cyr) The Company has agreed to submit rate case
24 expenses within 15 days of the date of the final order.

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 The Company envisions submitting its invoices and
2 costs, they will be submitted to Staff and OCA for
3 review, and recommendation to the Commission.

4 Q. And, we have no dollar amount at this point to propose
5 to the Commissioners, correct?

6 A. (St. Cyr) Correct.

7 Q. And, so, at this point, the Settling Parties are not
8 requesting the Commission approve any specific
9 surcharge for any rate case expenses, correct?

10 A. (St. Cyr) Correct.

11 Q. Mr. LaFlamme, if I could just have you offer what Staff
12 will be doing when it gets a rate case documentation
13 submission from Hampstead Area Water Company, what will
14 Staff do at that point?

15 A. (LaFlamme) Staff will be reviewing the costs submitted
16 by the Company, and usually that's accompanied by the
17 copies of the underlying invoices. Staff will be
18 reviewing those invoices and will, in turn, be making a
19 recommendation to the Commission for recovery of rate
20 case expenses.

21 Q. And, in that recommendation, will Staff be recommending
22 a surcharge amount and a recovery time period?

23 A. (LaFlamme) Yes.

24 Q. And, Mr. LaFlamme, I'd like to continue on to the Page

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 5, "Affiliate Company Agreements" section, if you
2 could. And, are you aware that the Company has
3 affiliate agreements on file with the Commission
4 already?

5 A. (LaFlamme) Yes.

6 Q. And, can you please explain for the record why it is
7 beneficial to have the Company file updated and other
8 affiliate agreements?

9 A. (LaFlamme) It's beneficial from the standpoint that it
10 enables the Staff to review the -- to review these
11 agreements to make sure that they're reasonable and
12 equitable. With regards to the Management Agreement
13 between the Company and Lewis Builders Development, it
14 was noted by the Audit Staff that it appeared that a
15 current Management Agreement was not on file, as there
16 was a change pertaining to the addition of an IT person
17 at an annual cost of \$10,000 was not included in the
18 Management Agreement on file with the Commission.

19 Q. Can I just interject at that point? Are you referring
20 to Page 60 of the Stipulation Agreement?

21 A. (LaFlamme) Yes.

22 Q. And, specifically, to the Audit Issue Number 17?

23 A. (LaFlamme) Yes.

24 Q. I just wanted to allow the Commissioners to catch up

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1 with your testimony.

2 A. (LaFlamme) Yes.

3 Q. Thank you.

4 A. (LaFlamme) And, so, partly as a result of that audit
5 issue, that was the reason for the inclusion of this
6 particular provision within the Stipulation Agreement.

7 BY MR. LEVINE:

8 Q. Mr. St. Cyr, on the same issue regarding the affiliated
9 agreements, the Company has an affiliate agreement for
10 management with Lewis Builders Development, Inc.,
11 correct?

12 A. (St. Cyr) Yes.

13 Q. What has the Company agreed to do in regards to that
14 agreement?

15 A. (St. Cyr) The Company has agreed to submit a revised
16 agreement within 90 days of the Commission's final
17 order.

18 Q. Now, has that agreement otherwise been approved by the
19 Commission?

20 A. (St. Cyr) Yes.

21 Q. In previous dockets?

22 A. (St. Cyr) Yes.

23 Q. It also came to light that the Company also utilizes
24 services from two other affiliated companies. What are

[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 those companies?

2 A. (St. Cyr) Lewis Equipment Company and Atkinson Resort
3 and Country Club.

4 Q. And, what does Lewis Equipment do for the Company?

5 A. (St. Cyr) They service the Company's vehicles.

6 Q. And, what does the Atkinson Resort do for the Company?

7 A. (St. Cyr) They provide after-hour call center services.

8 Q. So, that will be the content of those two affiliated
9 company agreements that will be filed?

10 A. (St. Cyr) That's correct.

11 Q. There was also, in the Stipulation, a practice that the
12 Company previous had concerning municipal fire
13 protection. Can you briefly describe what that is?

14 A. (St. Cyr) The Company had contracts with two
15 municipals. And, the Company's tariff now covers the
16 fire protection arrangement and cost, and the Company
17 has agreed to discontinue the use of contracts and to
18 rely entirely on the tariffs.

19 Q. Now, during the audit items which are reflected on
20 Pages 61 and thereafter, there was a mention in that as
21 part of issues regarding internal controls. Can you
22 briefly describe what that was, what the resolution is?

23 A. (St. Cyr) Yes. There were some questions with respect
24 to the calculation of the Lewis Builders Development

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[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 overhead. There was calculations concerning employees'
2 rates being charged to HAWC. And, there were issues
3 related to the signing of time cards. And, the Company
4 has agreed to revise its internal control to tighten up
5 its procedure, and will submit those revisions to the
6 Staff within 90 days of the final order.

7 Q. As well as to OCA?

8 A. (St. Cyr) Yes.

9 Q. Now, there was an additional issue that arose that the
10 Company agreed to make an adjustment to the hydrology
11 study note. Can you describe what that issue was and
12 what the resolution is?

13 A. (St. Cyr) Yes. In DW 06-104, the Commission approved
14 the Company's financing of this hydrology study. At
15 the time, the rate was 2.25 percent over the Prime
16 Rate. At that time, that was 10.5 percent. The
17 Company has agreed to charge the current interest rate,
18 the 2.25 percent over prime, which is 5.5 percent. The
19 Company has agreed to file an updated promissory note
20 within 90 days to reflect the change in the interest
21 rate.

22 Q. So that I understand you, the previous note had an
23 interest rate of 10.5 percent, which was two and a
24 quarter over Prime at the time?

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[WITNESS PANEL: St. Cyr | LaFlamme | Eckberg]

1 A. (St. Cyr) That's correct.

2 Q. And, lastly, was there anything else that the Company
3 -- that initially arose regarding reporting that the
4 Company agreed to do?

5 A. (St. Cyr) Yes. The Company has agreed to report
6 production consumption data. It feels, in part, with
7 the switch from quarterly to monthly billing, it will
8 have better information and be better able to monitor
9 its production and its consumption. The Company has
10 agreed to report that data as part of its annual report
11 filing on an annual basis.

12 Q. And, you heard Mr. LaFlamme's testimony regarding rate
13 case expenses. Is there anything that you would like
14 to add as to what the Company would do in regard to
15 rate case expenses?

16 A. (St. Cyr) No.

17 Q. Is there anything else you would like to bring to the
18 Commission's attention?

19 A. (St. Cyr) No.

20 MR. LEVINE: Thank you.

21 MS. THUNBERG: Staff just has a
22 follow-up question.

23 BY MS. THUNBERG:

24 Q. Because we didn't specify in the Stipulation Agreement,

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 Mr. LaFlamme, you heard Mr. St. Cyr testify earlier
2 that temporary rates/permanent rates, rates will be
3 reconciled by the Company and there will be a filing.
4 And, if you could just explain, when the Company
5 submits a reconciliation filing, what will Staff be
6 doing at that point?

7 A. (LaFlamme) Staff will be reviewing that filing, which
8 should include the calculation of the reconciliation
9 between temporary and permanent rates. And, Staff will
10 then be making a recommendation to the Commission based
11 upon its analysis of the Company's submission.

12 MS. HOLLENBERG: I just have a couple of
13 questions for Mr. Eckberg, and then just a couple of
14 questions for the other witnesses.

15 BY MS. HOLLENBERG:

16 Q. Mr. Eckberg, do you agree that the OCA is a signatory
17 to the proposed Settlement Agreement?

18 A. (Eckberg) Yes, I do agree with that.

19 Q. And, do you have any comments to offer in regards to
20 the OCA's support of the proposed Settlement Agreement?

21 A. (Eckberg) I don't have any specific comments to add to
22 those provided. The explanatory remarks by
23 Messrs. LaFlamme and St. Cyr this morning, I think they
24 have done an excellent job of explaining the Settlement

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 Agreement as it is. I would say, certainly, I'd like
2 to comment that the OCA did file -- I filed prefiled
3 testimony in this case. And, in my testimony, I did
4 identify a number of issues that were of concern to the
5 OCA with the original filing, as well as some issues
6 that were of concern that came into play later in the
7 docket during discovery and perhaps even after
8 discovery.

9 I feel that the Settlement Agreement, as
10 presented here today, is very comprehensive. That the
11 Company has been very responsive in listening to the
12 issues and concerns of the OCA, as well as those that
13 were raised by Staff. And, that the Settlement
14 Agreement, as presented, in totality represents a fair
15 resolution of all the issues on the table.

16 Q. Thank you. There were a number of opinions expressed
17 this morning by the Company and Staff's witnesses.
18 And, to the extent that you're not directly commenting
19 on those opinions, would you agree that the OCA's
20 position in this case is as expressed in the document
21 of the Settlement Agreement, as opposed to the comments
22 that are offered by the other witnesses today? Or, are
23 you in agreement with all of the comments that are
24 offered this morning?

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 A. (Eckberg) I think, as I stated, I think, in totality,
2 the Settlement Agreement represents the level of -- I
3 guess "level" is not the right word, I think it
4 represents an appropriate resolution of all the issues
5 in totality. I'd rather not try and dissect the -- my
6 testimony and compare it issue-by-issue with the final
7 resolution of all those issues, because, as I say,
8 there are many issues on the table. And, all the
9 parties that are signatories to the Agreement have done
10 a very good job, I think, of finding a comfortable
11 middle ground to resolve those issues.

12 Q. And, would you agree that the OCA's agreement in this
13 case is expressed within the terms of the document, the
14 Settlement Agreement?

15 A. (Eckberg) Indeed, I would. That's why we are a
16 signatory to the Agreement.

17 Q. Thank you. Do you have any other comments to offer
18 about the statements this morning?

19 A. (Eckberg) The only comment that I wrote down as I was
20 listening this morning, there was some discussion,
21 Mr. St. Cyr commented on the conversion of some of the
22 Company's -- some of, a significant amount of the
23 Company's long-term payables to affiliates, converting
24 that debt, if you will, into equity, in the form of

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 additional paid in capital. And, that that strengthens
2 the Company's overall debt-to-equity position. And, I
3 would just like to concur with that. I think that's an
4 appropriate conclusion, and we're pleased that that
5 issue worked out that way.

6 Q. And, you would agree that, without that adjustment,
7 that the Company's debt-to-equity -- it's common equity
8 ratio was a negative number?

9 A. (Eckberg) Yes, I would --

10 Q. Thank you.

11 A. (Eckberg) -- agree with that statement.

12 Q. Mr. LaFlamme, if I could just ask you a couple of
13 questions. You talked earlier about the adjustment to
14 the customer count and consumption for 2008 levels, and
15 I think what you had mentioned was that this was in
16 response to Company reports of decreased consumption.
17 I'm wondering, isn't it -- wasn't this also related to
18 a concern about excess capacity?

19 A. (LaFlamme) Yes.

20 Q. Could you just summarize that concern for us today
21 please.

22 A. (LaFlamme) There was -- One of the adjustments that was
23 made in the determination of permanent rates was the
24 fact that there were some water systems that the

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1 Company owned where the build-out of those water
2 systems was less than -- the actual build-out was less
3 than the anticipated full build-out of those, of
4 certain water systems. And, in order to be fair to the
5 customers in the development of just and reasonable
6 rates, an adjustment was made in order to reduce the
7 rate base relative to those particular systems, in
8 order to -- so that the full amount of the rate base of
9 those systems wasn't included in the determination of
10 permanent rates. And, the number that was used or
11 settled upon by the parties in making those
12 determinations were the customer count as of the end of
13 the year 2008.

14 Q. Okay. Thank you. And, just one other question for
15 you. You were asked a question a moment ago about the
16 filing of affiliate agreements and how they were -- how
17 that filing was beneficial. And, I would just ask,
18 isn't it also true that it's required by statute?

19 A. (St. Cyr) Yes.

20 Q. Okay. Thank you. And, a couple of questions for you,
21 Mr. St. Cyr. You had mentioned on your direct that the
22 interconnection costs and financing that are included
23 within this proposed Settlement Agreement were approved
24 in DW 08-088. And, I wonder if you would agree with me

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 that it is true that the Company asked for approval of
2 these costs and the financing in that docket, but that
3 that issue was transferred to this docket for
4 resolution, and that is why it's included in this
5 Settlement Agreement today?

6 A. (St. Cyr) I would agree with that.

7 Q. Thank you. And, if I could just ask you to look at
8 Page 43 of Exhibit 5, which is the proposed Settlement
9 Agreement, Mr. St. Cyr. This referenced -- I just
10 wanted to clarify, this referenced "2008 addition" of
11 SCADA equipment, and you would agree that in the
12 Company's last rate case, which was DW 06-104, that
13 there was -- that SCADA costs were a basis for that
14 rate increase also?

15 A. (St. Cyr) Yes.

16 Q. Subject to check?

17 A. (St. Cyr) Yes.

18 Q. Yes. And, that those SCADA costs, however, are
19 different from the costs that are included in this
20 proposed Agreement?

21 A. (St. Cyr) That's correct.

22 Q. Thank you. And, lastly, just a clarification. The
23 2008, if you could look at Exhibit 7, which is the --

24 MS. HOLLENBERG: Actually, it's -- oh,

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 okay. It's Exhibit 8. And, did that -- I don't know if
2 that got in yet. So, let me, I'll do that.

3 MS. THUNBERG: Thank you.

4 BY MS. HOLLENBERG:

5 Q. I just would like you to look at this document, and
6 confirm for me, if you would, that that's the petition
7 for financing approval that the Company filed in May?

8 A. (St. Cyr) Yes, it is.

9 (Atty. Hollenberg distributing
10 documents.)

11 MS. HOLLENBERG: And, we'll get you a
12 copy for the clerk.

13 CMSR. BELOW: I don't need it.

14 MS. HOLLENBERG: Thank you.

15 CMSR. BELOW: I already have a copy.

16 (The document, as described, was
17 herewith marked as **Exhibit 8** for
18 identification.)

19 BY MS. HOLLENBERG:

20 Q. And, this is a separate petition that I referenced in
21 opening procedural remarks that the parties are jointly
22 requesting be separately docketed and ruled on in a
23 slightly separate manner from the permanent rate
24 request?

[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 A. (St. Cyr) That's correct.

2 Q. Okay. If you could look at -- If you could look at
3 Page 7 of that exhibit. My Page 7 is -- it says in the
4 upper right-hand corner "Exhibit 2", and then, in the
5 center, below that "2008 addition promissory note". Do
6 you have that page?

7 A. (St. Cyr) I do.

8 Q. Just for clarification, I thought -- is it true that
9 this actually, this financing, has already been
10 borrowed, basically?

11 A. (St. Cyr) Yes.

12 Q. Okay. So, HAWC has already borrowed this money from
13 Lewis Builders Development. And, you're basically, in
14 this case, or in the proposed Settlement Agreement, the
15 parties are actually asking the Commission to approve
16 that financing after the fact, right?

17 A. (St. Cyr) That's correct.

18 Q. Okay. I mean, ordinarily, it happens before the fact.
19 But, in this case, we've agreed to recommend that it
20 happen now after the fact?

21 A. (Witness St. Cyr nodding affirmatively).

22 Q. Yes?

23 A. (St. Cyr) Yes.

24 MS. HOLLENBERG: Okay. Thanks. I will

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 -- I don't think I have any other questions. I will defer
2 to the Company's counsel or Staff if they want to do any
3 further qualification of this document. I don't
4 necessarily see any need, it speaks for itself. But I had
5 planned to introduce it, so I just wanted to make sure.
6 Thanks.

7 MS. THUNBERG: So, I think, between the
8 three of us, we're done our direct. So, we're done with
9 our witnesses, if you have questions.

10 CHAIRMAN GETZ: Thank you. It's been a
11 very thorough presentation. No questions from the Bench.
12 So, I take it, there's nothing else for the witnesses?

13 MS. HOLLENBERG: Actually, I'm sorry.
14 If I might just ask one other question for both Staff and
15 the Company witnesses.

16 BY MS. HOLLENBERG:

17 Q. The interest rate on the refinancing is not fixed,
18 correct?

19 A. (St. Cyr) That's correct.

20 Q. And, there is a possibility that it will increase at
21 some point before the loan is executed, right?

22 A. (St. Cyr) Right.

23 Q. Is there a point at which either of you would feel no
24 longer comfortable with proceeding with that

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[WITNESS PANEL: St. Cyr|LaFlamme|Eckberg]

1 refinancing?

2 A. (St. Cyr) Assuming the interest rate is substantially
3 the same, I would say "no".

4 Q. And, I guess, if the interest rate were lower than the
5 weighted average interest rate for all the loans it's
6 replacing, it still would be in the public interest to
7 proceed with that refinancing, is that correct?

8 A. (St. Cyr) That's correct.

9 Q. Mr. LaFlamme, do you feel the same?

10 A. (LaFlamme) Yes.

11 MS. HOLLENBERG: Okay. Thank you.

12 Nothing further.

13 MR. LEVINE: Nothing further.

14 CHAIRMAN GETZ: And, nothing further for
15 these witnesses I see, so the witnesses are excused.
16 Thank you, gentlemen.

17 WITNESS ECKBERG: Thank you.

18 CHAIRMAN GETZ: Any objection to
19 striking the identifications and admitting the exhibits
20 into evidence?

21 (No verbal response)

22 CHAIRMAN GETZ: Hearing no objections,
23 they will be admitted into evidence. I guess, is there
24 anything else before opportunity for closings?

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1 (No verbal response)

2 CHAIRMAN GETZ: Hearing nothing, then
3 we'll start with Ms. Hollenberg.

4 MS. HOLLENBERG: You don't need a copy?

5 CHAIRMAN GETZ: No.

6 MS. HOLLENBERG: Okay. Thank you. With
7 the changes that were submitted today to the original
8 Settlement Agreement, we support the Commission's approval
9 of the revised Settlement Agreement. We consider the
10 terms of this Agreement to be a reasonable compromise of
11 all of the issues in this case. As I've mentioned a
12 couple of times, we would ask for the Commission to
13 separately docket the financing petition and issue an
14 order on that petition separately from its order on
15 permanent rates. That this order be in the form of an
16 order *nisi* in order to afford notice to the public of the
17 financing requests. And, it's my understanding, as was
18 said this morning, that this is an acceptable proposal, so
19 long as the order *nisi* is issued contemporaneously with
20 the permanent rate order.

21 We want to comment generally on a couple
22 of issues that arose during this case, which are not
23 resolved in the Settlement Agreement, nor are we
24 requesting any specific resolution. The first is that

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1 this case was challenging to us, in that it seemed to be
2 ever-evolving. We did have a number of changes that
3 occurred throughout the proceeding, some of which occurred
4 later in the proceeding. And, we certainly want to make
5 it clear that we do attribute this to any bad faith of the
6 Company, but we would expect, in future rate cases, that
7 they be prepared in a way that their case is less of a
8 moving target.

9 Given that only recently a rate request
10 by this Company could not be acted upon because of a lack
11 of adequate records and data, we think the Company has
12 come a long way, and we expect that its presentations in
13 the future to be continually improving.

14 The second issue we would just like to
15 comment on is that we became aware in this case that there
16 was at least one outstanding step increase related to the
17 last rate case, which is DW 06-105, for the hydrology
18 study. The financing of which was referred to in the
19 proposed Settlement Agreement as having reduction in the
20 rates. And, this step increase has not occurred yet, nor
21 was it incorporated into the resolution of this permanent
22 rate case. And, it's our understanding, at least from our
23 practice, that step increases, the purpose underlying them
24 is to lessen the risk that the Company immediately, after

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1 a rate case, would experience a significant or a
2 detrimental decline in its return. And, so, we would
3 expect that that step increase, and the step increases --
4 the second step increase in this case, which is for the
5 interconnection, will be consummated or completed at some
6 point well before the next rate case, or, at the very
7 least, be rolled into the resolution of the next rate
8 case.

9 Lastly, we wanted to thank both the
10 Staff and the Company for their cooperative and respectful
11 attitudes throughout this case. I say this usually at the
12 end of all cases, but I really do want to stress that it
13 was a very collegial and professional relationship among
14 all people, and I really felt as though we were working
15 towards a common end. It is clear to us that Staff
16 dedicated a lot of time and effort to its analysis, and
17 that -- and to responding to the issues that arose during
18 the course of discovery and afterwards. As well as it is
19 also clear that the management of this company cares about
20 serving its customers well, and as well as fostering good
21 relationships with the Staff and the OCA, and we really
22 appreciate that. It's not all the time that we get a
23 utility that wants to work with us. So, we appreciate
24 that and wanted to make sure you knew that. Thanks.

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1 CHAIRMAN GETZ: Thank you.
2 Ms. Thunberg.

3 MS. THUNBERG: I'll first thank OCA for
4 that public compliment. With respect to Staff's opinion
5 or presentation today in our closing, our positions were
6 adequately reflected in the testimony and the exhibits
7 that were provided today. And, we just respectfully
8 request that the Commission approve the proposal as
9 presented. Thank you.

10 CHAIRMAN GETZ: Thank you. Mr. Levine.

11 MR. LEVINE: Commissioners, I would like
12 to thank OCA for its support and Staff for its diligence
13 in working with the Company. This being a small utility,
14 relative to some of the larger ones in the economic
15 playing field, we do have to remain a little bit more
16 flexible in response to the economies that hit us. And,
17 while we apologize for sometimes having to make changes
18 during the course of a rate case that takes almost a year
19 to complete, we felt that we had to address those things
20 for the necessity of the business of the Company, as well
21 as the service to our customers. We feel the Stipulation
22 reflects addressing all those needs, and thank Staff and
23 the OCA for allowing us to do so. We feel that the
24 Stipulation reflects a good compromise of those issues and

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1 submit it to the Commission for their consideration.

2 Thank you.

3 CHAIRMAN GETZ: All right. Thank you
4 then. And, we will close the hearing and take the matter
5 under advisement.

6 (Whereupon the hearing ended at 11:37
7 a.m.)

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