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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 27, 2008 - 10:11 a.m.
Concord, New Hampshire

RE: DW 08-073
PENNICHUCK WATER WORKS, INC.:
Notice of Intent to File Rate Schedules.
(Prehearing conference)

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Pennichuck Water Works, Inc.:
Sarah B. Knowlton, Esq. (McLane, Graf...)

Reptg. Anheuser-Busch, Inc.:
John T. Alexander, Esq.(Ransmeier & Spellman)

Reptg. the City of Nashua:
Justin C. Richardson, Esq. (Upton & Hatfield)

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

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

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

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

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the prehearing conference in docket
4 DW 08-073. On May 22nd, 2008, Pennichuck Water Works
5 filed a notice of intent to increase rates. And, on
6 June 23rd, it filed schedules, materials, and testimony
7 supporting its proposed rate increase, as well as a
8 petition for temporary rates. The Company seeks a
9 permanent rate increase in its gross operating revenues of
10 \$3,193,791, which would result in a 14.72 percent increase
11 for general metered customers, for service rendered as of
12 August 1, 2008. In addition, it seeks two step increases
13 for capital additions placed in service in 2008. The
14 first such increase would result in a 5.05 percent
15 increase, and the second step would constitute a
16 5.51 percent increase. We issued a order suspending the
17 tariffs and scheduling the prehearing conference on
18 July 23, 2008.

19 Note for the record that we have the
20 affidavits of publication, have been filed by the Company,
21 and that we have a letter from the Consumer Advocate
22 indicating that it will be participating in the
23 proceeding. And, we have Petitions to Intervene by
24 Anheuser-Busch and the City of Nashua.

{DW 08-073} [Prehearing conference] (08-27-08)

1 So, with that, can we take appearances
2 please.

3 MS. KNOWLTON: Good morning, Chairman
4 Getz and Commissioners Morrison and Below. My name is
5 Sarah Knowlton. I'm with the McLane law firm. I'm here
6 today on behalf of Pennichuck Water Works. And, with me
7 today from the Company is Bonnie Hartley, Donald Ware, and
8 Charles Hoepper.

9 CHAIRMAN GETZ: Good morning.

10 CMSR. MORRISON: Good morning.

11 CMSR. BELOW: Good morning.

12 MR. ALEXANDER: Good morning. John
13 Alexander, from the law firm of Ransmeier & Spellman, on
14 behalf of Anheuser-Busch.

15 CHAIRMAN GETZ: Good morning.

16 CMSR. MORRISON: Good morning.

17 CMSR. BELOW: Good morning.

18 MS. PRESSLEY: Good morning. My name is
19 Barbara Pressley. I'm an intervenor in the purchase
20 issue. And, I would like to give a statement, if
21 possible.

22 CHAIRMAN GETZ: Okay. Thank you.

23 MS. PRESSLEY: Thank you.

24 MR. ECKBERG: Good morning, Mr.

1 Chairman, Commissioners. Stephen Eckberg, for the Office
2 of Consumer Advocate. With me is Rorie Hollenberg of the
3 OCA as well.

4 CHAIRMAN GETZ: Good morning.

5 CMSR. MORRISON: Good morning.

6 CMSR. BELOW: Good morning.

7 MS. HOLLENBERG: Good morning.

8 MR. RICHARDSON: Good morning,

9 Commissioners. Justin Richardson, with the law firm of
10 Upton & Hatfield, here on behalf of the City of Nashua.

11 CHAIRMAN GETZ: Good morning.

12 CMSR. MORRISON: Good morning.

13 CMSR. BELOW: Good morning.

14 MS. THUNBERG: Good morning,

15 Commissioners. Marcia Thunberg, on behalf of Staff. And,
16 with me today is Mark Naylor, Jim Lenihan, Doug Brogan,
17 and Jayson LaFlamme. Thank you.

18 CHAIRMAN GETZ: Good morning.

19 CMSR. MORRISON: Good morning.

20 CMSR. BELOW: Good morning.

21 CHAIRMAN GETZ: Is there anything we
22 need to address, before we hear statements of positions
23 from the parties?

24 (No verbal response)

{DW 08-073} [Prehearing conference] (08-27-08)

1 CHAIRMAN GETZ: Hearing nothing, then,
2 Ms. Knowlton.

3 MS. KNOWLTON: Good morning. The
4 Company is seeking an increase in its annual gross
5 operating revenue in this case of approximately
6 \$3.1 million, based on a December 31st, 2007 test year.
7 This rate increase would result in a 14.72 increase for
8 general metered customers for service rendered as of
9 August 1st, 2008. The Company is requesting two step
10 increases, based on significant capital additions that
11 either have been or will be placed in service in 2008.
12 The first step increase would be based on plant that's
13 used and useful as of May 1st, 2008, and that would
14 generate an additional approximate \$1 million in annual
15 gross operating revenue for the Company. The second step
16 increase is based on plant that would be used and useful
17 and in service as of November 1st, 2008. And, that step
18 increase would result in an additional \$1.1 million in
19 annual gross operating revenue. When combined, the
20 proposed overall rate request, with the two step
21 increases, would result in an overall increase in rates of
22 25.27 percent for general metered customers.

23 The Company has filed a Petition for
24 Temporary Rates, and is also asking that temporary rates

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1 be put in effect in this case. The Company is seeking an
2 increase in revenue on a temporary basis of approximately
3 \$2.4 million, and that represents an 11.27 percent
4 increase overall, or an effective rate increase for
5 general metered customers of 11.07 percent.

6 On July 25th, the Commission issued a
7 decision authorizing the taking of substantially all of
8 the assets of Pennichuck Water Works. Because the
9 decision did not provide a mechanism for recovery of
10 investments made in 2008, and the Company will be
11 deferring approximately \$2.6 million in capital
12 expenditures that were included in the Company's proposed
13 second step increase. As a result, the second step
14 increase will be based on \$5.2 million in capital
15 improvements, not the \$7.8 million originally proposed.
16 The Company will work with the parties to identify those
17 projects -- well, I mean, the Company has identified the
18 projects that have not been undertaken, and we'll identify
19 those to the Commission and the parties. And, the Company
20 will make any revisions that are necessary to its
21 testimony and schedules to reflect those changes.

22 I do want to be clear that the Company
23 is not going to be deferring any maintenance necessary for
24 its systems, and it will complete the construction of the

1 water treatment plant.

2 The Company looks forward to working
3 with the parties in this case to develop a procedural
4 schedule and to respond to discovery. The Company will
5 cooperate fully with the Commission Staff on the audit,
6 and that will be part of this case. We appreciate your
7 time today and your consideration of the Company's
8 request.

9 CHAIRMAN GETZ: Thank you. Before we go
10 to Mr. Alexander, I neglected to ask, are there any
11 objections to any of the Petitions to Intervene?

12 MS. THUNBERG: Staff has no objection to
13 Anheuser-Busch's intervention and the City of Nashua's
14 intervention.

15 MS. KNOWLTON: The Company doesn't have
16 any objections to the two intervention requests as well.

17 CHAIRMAN GETZ: Okay.

18 MR. ECKBERG: No objections.

19 CHAIRMAN GETZ: Hearing no objections,
20 and recognizing that Anheuser-Busch and the City of Nashua
21 have demonstrated rights, duties, privileges, or other
22 interests that are affected by the proceeding, we'll grant
23 the Petitions to Intervene. Mr. Alexander.

24 MR. ALEXANDER: Thank you.

1 Anheuser-Busch's interest in the proceeding is -- should
2 be apparent, in that the tariff rates are going to affect
3 the contract rate. And, we don't have a view at this
4 point as to the -- as to the amount or the allocations,
5 but would like the opportunity to conduct our analysis and
6 participate at that level.

7 CHAIRMAN GETZ: Thank you.

8 Ms. Pressley, would you like to make your public statement
9 at this point?

10 MS. PRESSLEY: Thank you, Mr. Chairman.

11 Yes. I don't care to intervene. My understanding of the
12 rate process, it's a fairly well established one, and I
13 don't care to be involved in that. But I do feel that the
14 public statements made by the corporation and addressed
15 this morning are why I'm here. The boundaries seem to
16 have been blurred between this rate increase and the
17 City's desire to purchase the Company. And, so, that's --
18 I felt that, as an intervenor on that case, it was
19 important to be here this morning.

20 Also, I might add that one of the
21 projects under construction is a 5.9 million gallon water
22 tank. And, if you haven't seen one of these, I suggest
23 you do. They're just enormous. Is 39 Orchard Avenue, and
24 I live at 11 Orchard Avenue. So, I'm very interested in

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1 knowing if they plan to complete the construction of the
2 water tank in my neighborhood.

3 I was sort of surprised at the corporate
4 reaction to your decision, in that I have attended every
5 annual meeting since 2002, when the Company decided to
6 sell itself. And, there's been very little discussion
7 every year about what would happen if the City should
8 prevail in the case. And, certainly, there's been no
9 education to the shareholders as to "what if". And, so, I
10 just find it sort of interesting that they have made no --
11 they haven't considered the fact that, in fact, the City
12 just might be -- the people might be buying the Company.

13 CHAIRMAN GETZ: Are you finished,
14 Ms. Pressley?

15 MS. PRESSLEY: Just about.

16 CHAIRMAN GETZ: Well, let's let
17 Ms. Pressley finish her public statement, before we hear
18 from Ms. Knowlton.

19 MS. PRESSLEY: Well, I was just
20 surprised, and it seems that you're going to be dealing
21 with this. Apparently, the rates that they had applied
22 for originally will be changing because of the decision
23 that you made regarding the case that I am an intervenor
24 for. Thank you.

1 CHAIRMAN GETZ: Thank you.

2 Ms. Knowlton.

3 MS. KNOWLTON: I understand that
4 Ms. Pressley is welcome to come and make a public
5 statement to the Commission, you know, but we're here
6 today on the rate case. I think there's a very limited
7 overlap in issues, which I identified in my prehearing
8 statement, between DW 04-048 and this rate case. But I
9 think, to go beyond that, you know, and offer a party --
10 parties in the other proceeding an opportunity to make
11 statements about the Commission's decision, you know,
12 should not be heard at this time. Not all the parties are
13 here, that's not what we're here for today. So, I would
14 ask that, you know, and I object to, you know, any
15 statements that go beyond the rate, you know, the rate
16 case that we're here on today and that's pending before
17 the Commission.

18 MS. PRESSLEY: Will she let me know what
19 they intend to do with the water tank that's in my
20 neighborhood? That was not referenced in her statement.

21 MS. KNOWLTON: Sure. I'd be glad to
22 consult with Ms. Pressley when we're done this morning
23 about that.

24 CHAIRMAN GETZ: Okay. Please do that.

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1 Okay. Mr. Richardson.

2 MR. RICHARDSON: Thank you, Mr.
3 Chairman. The City of Nashua expressed a number of
4 concerns in its Petition to Intervene. The City, however,
5 does not take a position in favor or opposed to the
6 request for a rate increase at this time. Rather, we
7 intend to evaluate what gets filed with respect to the
8 ongoing improvements and maintenance activities, and then
9 also with respect to fire protection rates. We will
10 participate, the City does intend to take a position.
11 We'll do so in accordance with the procedural schedule.

12 CHAIRMAN GETZ: Thank you. Mr. Eckberg.

13 MR. ECKBERG: Good morning, Mr.
14 Chairman, Commissioners. The OCA has no position at this
15 time on either the Company's request for temporary or for
16 permanent rate increases. The OCA is aware of recent news
17 reports that indicate the Company is considering deferring
18 nearly \$4 million in capital improvements and maintenance
19 to its water systems. The Company's Chief Financial
20 Officer, Mr. Leonard, was recently quoted in the Nashua
21 Telegraph as saying "that these deferrals may impact such
22 things as water main and booster station replacement
23 projects." The OCA is certainly interested in how any
24 such deferrals may impact the Company's service to its

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1 customers and its request for rate relief in this docket.

2 The OCA looks forward to working with
3 the Company, with Staff, and other parties, in evaluating
4 the Company's petition for rate relief.

5 CHAIRMAN GETZ: Thank you.

6 Ms. Thunberg.

7 MS. THUNBERG: Good morning,
8 Commissioners. I have a prepared statement to mostly
9 read, and amend due to comments today. Staff views this
10 rate case as a relatively normal rate case. It does have
11 some unique issues, but it will be reviewing it as it does
12 other rate cases in its normal practices. Staff will be
13 conducting a thorough audit of the Company's books and
14 records. With respect to the cost of service study that
15 the Company has filed, they propose adjusting the
16 allocation formula in the temporary and permanent rate
17 phase, and Staff is aware of that and will be looking at
18 that.

19 There are a number of proforma
20 adjustments, and, as the Company and other intervenors
21 have mentioned, there may be some adjustments due to
22 capital improvements that may be deferred. Staff will be
23 making sure that the test year adequately reflects the
24 Company's future financial picture and will be

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1 scrutinizing the proforma adjustments, to make sure that
2 it is accurate.

3 With respect to the City of Nashua's
4 intimation in its intervention request that deferral of
5 ordinary maintenance may impact the water quality the
6 customers receive, Staff is aware, the Company is aware
7 that RSA 374 requires them to provide safe and adequate
8 service. And, Staff will be making sure that any
9 deferrals that actually happen in either capital
10 improvements or ordinary maintenance will not degrade the
11 quality of the safe and adequate service the Company is
12 obligated to provide.

13 Lastly, the Company did provide
14 testimony specifically on cost of equity and rate of
15 return. And, Staff expects to dive into that issue and
16 provide testimony itself. And, Staff will be working with
17 the intervenors and the Company after this prehearing in a
18 technical session to devise a proposed procedural
19 schedule. Thank you very much.

20 CHAIRMAN GETZ: Thank you. Anything
21 else that the parties wish to bring before us this
22 morning?

23 MS. KNOWLTON: Nothing further.

24 CHAIRMAN GETZ: Okay. Hearing nothing,

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1 then we will await a recommendation from the parties as to
2 a procedural schedule. And, we'll take the matter under
3 advisement. Thank you, everyone.

4 (Whereupon the prehearing conference
5 ended at 10:25 a.m. and the parties
6 participated in a technical session
7 thereafter.)

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