

Eastman Sewer Company

DW 08-086

Testimony, Exhibits and

Other Financing and Rate Case Requirements

Eastman Sewer Company

DW 08-086

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Eastman Sewer Company

Grantham, New Hampshire

July 2008

Background

The Eastman Community Association (ECA) purchased the Eastman Sewer Company (ESC) from Controlled Environment Corporation in 2001. Currently, the system serves all 336 condominiums in the Eastman community as well as 197 homes and 2 commercial facilities, for a total of 535 customers. There are 21 vacant lots that remain as potential customers for the system, which was designed to accommodate all of these properties. The sewer system is operated and maintained through a contract with a licensed operator, Water System Operators (WSO) of Henniker, NH. ESC has no employees and all work is performed by contractors or by Eastman maintenance staff, the cost for which is reimbursed from ESC to ECA.

Operating Authority and Governance

The Eastman Sewer Company is under the jurisdiction of the New Hampshire Public Utilities Commission (PUC). The PUC regulates rates, monitors operations, and stipulates certain requirements regarding financial accounting and reporting. The Company is governed by a five member Board of Directors, three of whom must be users of the system and two of whom must be members of the ECA Board. At its monthly meetings, the Board of Directors reviews the current financial status of the company and receives a report from WSO regarding system operation and any problems that require attention.

Ongoing Activity

The activity of most importance is to maintain the integrity and reliability of the system. Portions of the sewer line have been televised to identify any problem areas. Over the past year there have been instances of system problems, most of which are related to items being flushed into the system (such as grease and other disposables) which the system is not designed to handle. The current contract with WSO requires they visit Eastman at least once each day, seven days a week, to check the critical system components to ensure property function. WSO will also respond to alarms that automatically dial the company if system problems occur.

Current Challenges

Growth of expenses is a major challenge for ESC. Increases in contracted services, system repairs and other areas have been significant. More importantly, we are beginning to experience more mechanical problems, due in large part to the age of the system and its components. Numerous repairs and replacements have been done to the system over the past several years; however more significant upgrades are needed. In the fall of 2007 ESC contracted with CLD Consulting Engineers to complete an analysis of the system and provide capital improvement recommendations. In March of 2008, CLD issued a report showing over \$500,000 of needed capital upgrades or replacements over the next several years.

Summary

The Eastman Sewer Company has reached the point where a rate increase is essential for the company to manage the increased operating costs and undertake the recommended capital replacement program. In addition, the Company is now required to meet certain standards which did not exist when it was formed over 30 years ago. These factors combine with the fact that we have only 535 customers within the system, with very limited growth potential. ESC has not raised its rates since it was purchased by ECA and, in fact, the rates have remained at the current level (\$56 per quarter) for the past 16 years. It is the objective of the Eastman Sewer Company to provide effective and affordable service to our customers. An appropriate rate increase which will provide the necessary funds to meet our ongoing operating expenses and undertake the needed capital improvements will allow us to meet that objective.

STEPHEN P. ST. CYR & ASSOC.

17 Sky Oaks Drive, Biddeford, ME 04005

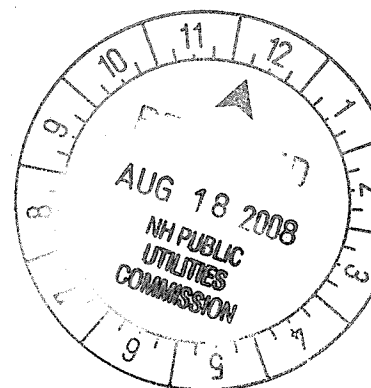
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Accounting & Finance
Budgeting & Forecasting
Financial Statement Preparation
Regulatory Affairs
Tax Preparation & Planning
Management Services

August 15, 2008

Debra Howland
Executive Director & Secretary
Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, N. H. 03301-2429



Dear Ms. Howland:

On behalf of Eastman Sewer Company ("Eastman" or "Company") enclosed is the original and eight copies of the Company's financing and rate filing in DW 08-086. Additionally, a copy has been sent to the Consumer Advocate.

The rate filing includes the following:

- (1) Introductory letter
- (2) Report of proposed changes
- (3) Proposed tariff pages
- (4) Direct testimony of Stephen P. St. Cyr
- (5) Schedules (including adjustments)
- (6) Proposed statement to be transmitted to each customer
- (7) Responses to NHPUC 1604.01 requirements
- (8) An attestation by Stephen P. St. Cyr regarding the rate filing being an accurate reflection of Company's books

The Company believes that it has met the financing and rate filing requirements. It is our understanding that the Commissioners will schedule a prehearing conference to consider motions for intervention and a procedural schedule. **In the event that the PUC suspends the proposed rates pending the Commission's investigation of such rates prior to rendering a final order, the Company respectfully requests that PUC grant temporary rates. In support of such temporary rates, as part of this filing, the Company has included testimony and schedules.** The Company anticipates being able to discuss and resolve any issues that may arise during the proceedings. If the Commissioners and/or its Staff have any questions, please contact me at 207-282-5222.

Sincerely,

A handwritten signature in dark ink, appearing to read "Stephen P. St. Cyr".

Stephen P. St. Cyr

Eastman Sewer Company
before the
New Hampshire Public Utilities Commission

DW 08-086
Introductory Letter

Eastman Sewer Company ("Eastman" or "Company") respectfully requests that the Commissioners accept this filing in support of its request for the financing of 2008 and 2009 system improvements and an increase in rates to service the debt and earn a return on its investment and cover its operating expenses. If the financing and rate filing is accepted as submitted, the Company would realize an annual increase in capital reserve funds of \$33,241 and permanent revenues of \$23,145 effective immediately. The permanent revenue increase of \$23,145 would enable the Company to earn a 8.30% rate of return on its rate base of \$68,397 and cover its operating costs. The average annual amount for a residential customer would increase from \$223.32 to \$327.80, an increase of \$104.48 or 46.28%.

During the twelve months ended December 31, 2007 the Company's net operating income amounted to (\$9,748). The Company's net operating requirement based on its actual, beginning and ending average rate base times its actual rate of return of 10.00% was \$6,771. The net of the operating income requirement and the operating income is an operating income deficiency of \$16,520. In 2007 the Company experienced a slight increase in revenue and a more significant increase in expenses resulting in a need for the rate increase. At December 31, 2007 the Company had 535 customers. The Company has made a few proforma adjustments in its filing. The proforma adjustments are an attempt to adjust test year revenue and expenses to what the Company believes such revenue and expenses need to be in order for the Company to recover its costs and to earn a fair and reasonable return on its investment.

The Company is requesting that the proposed rate be effective immediately. In the event that the PUC suspends the proposed rates pending the Commission's investigation of such rates prior to rendering a final order, the Company respectfully requests that PUC grant temporary rates. In support of such temporary rates, as part of this filing, the Company has included testimony and schedules.

With respect to the specific rate filing and its exhibits and supporting schedules, we have engaged the services of Stephen P. St. Cyr of St. Cyr & Associates to prepare the financing and rate filing and to draft and present testimony on the merits of the case. Enclosed is his testimony, the schedules and supporting documentation and the other rate filing requirements.

SPStCyr
08/15/08

Eastman Sewer Company

Report of Proposed Rate Changes

Utility Eastman Sewer Company

Date Filed: 8/15/2008

Tariff No.:

Effective Date: Immediately

Sewer Rates

Rate of Class of Service	Effect of Change	Number of Customers	Authorized Present Revenue	Proposed Revenue	Proposed Change Amount	Proposed Change Percentage
Residential	\$22,569	533	\$109,060	\$131,629	\$22,569	20.69%
Commercial	<u>576</u>	<u>2</u>	<u>2,781</u>	<u>3,357</u>	<u>576</u>	<u>20.71%</u>
Total Sewer	\$23,145	535	\$111,841	\$134,986	\$23,145	20.69%
Misc.	<u>0</u>	<u>-</u>	<u>469</u>	<u>469</u>	<u>0</u>	<u>0.00%</u>
Total	<u>\$23,145</u>	<u>535</u>	<u>\$112,310</u>	<u>\$135,455</u>	<u>\$23,145</u>	<u>20.61%</u>
Avg.Res.Cust.	<u>\$42.34</u>		<u>\$204.62</u>	<u>\$246.96</u>	<u>\$42.34</u>	<u>20.69%</u>

Capital Reserve Rate

Total	<u>\$33,241</u>	<u>535</u>	<u>\$10,008</u>	<u>\$43,249</u>	<u>\$33,241</u>	<u>332.14%</u>
Avg.Res.Cust.	<u>\$62.13</u>		<u>\$18.71</u>	<u>\$80.84</u>	<u>\$62.13</u>	<u>332.14%</u>
Total Avg. Res. Cust.	<u>\$104.48</u>		<u>\$223.32</u>	<u>\$327.80</u>	<u>\$104.48</u>	<u>46.28%</u>

SPSt. Cyr
8/12/2008

Eastman Sewer Company

3. Rate Schedules

3.1 Schedule R-U Residential Services – User

Availability: This schedule is applicable to each unit of residential real estate in the service area which is connected to the Company's sewer pipes. The rate is available to owners of such units.

Character of Service: Receiving, transporting, treating and disposal of sewage from Customer's premises, subject to the terms and conditions of the Tariff.

Rate: \$328 per year.

Terms of Payment: Bill under this rate will be issued in four (4) quarterly installments of \$82 each.

Minimum Charge: One quarterly payment

Issued: August 15, 2008

Issued by:

Effective Immediately

Title:

Brian Harding
General Manager

Authorized by NHPUC Order No. ... in DW 08-086, dated ...

Eastman Sewer Company

3. Rate Schedules

3.1 Schedule R-U Commercial Services – User

Availability: This schedule is applicable to each structure or facility in the Company's Service Area which is connected to the Company's sewer pipes, other than a residential unit.

Character of Service: Receiving, transporting, treating and disposal of sewage from Customer's premises, subject to the terms and conditions of the Tariff.

<u>Rate:</u>	(a)	Eastman Community Association	-	\$2,459.70 per year
	(b)	Eastman Lake Realty	-	\$ 896.27 per year

Terms of Payment: Bill under these rates will be issued in four (4) quarterly installments of \$82 each.

Issued: August 15, 2008

Issued by:

Effective Immediately

Title:

Brian Harding
General Manager

Authorized by NHPUC Order No. ... in DW 08-086, dated ...

