

1                   STATE OF NEW HAMPSHIRE  
2                   PUBLIC UTILITIES COMMISSION

3  
4   June 2, 2009 - 10:11 a.m.  
5   Concord, New Hampshire

6  
7       RE: DW 08-086  
8       EASTMAN SEWER COMPANY:  
9       Notice of Intent to file a Petition for  
10      Financing and Rate Schedules.  
11      (Hearing regarding permanent rates)

12  
13      PRESENT: Chairman Thomas B. Getz, Presiding  
14               Commissioner Clifton C. Below  
15               Commissioner Graham J. Morrison

16               Jody Carmody, Clerk

17  
18      APPEARANCES: Reptg. Eastman Sewer Company:  
19                   Stephen P. St. Cyr

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

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22

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

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I N D E X

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PAGE NO.

4

WITNESS PANEL:   STEPHEN P. ST. CYR  
                          MARK A. NAYLOR

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Direct examination by Ms. Thunberg                   4

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Interrogatories by Cmsr. Below                   24

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Redirect examination by Ms. Thunberg               25

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E X H I B I T S

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EXHIBIT NO.       D E S C R I P T I O N       PAGE NO.

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7       Stipulation Agreement on               4  
          Permanent Rates

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20 CLOSING STATEMENTS BY:

21                    Ms. Thunberg                    26

22                    Mr. St. Cyr                    27

23

24

{DW 08-086}    {06-02-09}

1 PROCEEDINGS

2 CHAIRMAN GETZ: Okay. Good morning.

3 We'll open the hearing in docket DW 08-086. On August 18,  
4 2008, Eastman Sewer Company filed revised tariff pages  
5 designed to increase annual revenues by 46 percent over  
6 authorized rate levels, and it also requested temporary  
7 rates, and authorization pursuant to RSA 369 to borrow  
8 \$238,000 in order to finance system improvements. And, a  
9 prehearing conference was held in this proceeding on  
10 October 29, 2008, and subsequently a procedural schedule  
11 was issued that moved on several tracks. As a result of  
12 which, temporary rates were approved on December 2008;  
13 financing was approved on May 21, 2009. And, the purpose  
14 of the hearing today is to consider a settlement proposed  
15 by the Company and Staff with respect to permanent rates.

16 So, let's take appearances please.

17 MR. ST. CYR: Good morning. My name is  
18 Stephen P. St. Cyr, and with me is Brian Harding and Jim  
19 Coffey, representing Eastman Sewer Company.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. BELOW: Good morning.

22 CMSR. MORRISON: Good morning.

23 MS. THUNBERG: Good morning,

24 Commissioners. Marcia Thunberg, on behalf of Staff, and

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[WITNESS PANEL: St. Cyr|Naylor]

1 with me today is Mark Naylor, Jayson LaFlamme, and Doug  
2 Brogan. And, I'll keep standing, because I do have a  
3 preliminary matter to bring to your attention.

4 As you stated, the Staff and Company  
5 have a Stipulation Agreement to present. And, we intend a  
6 panel of Mr. Naylor and Mr. St. Cyr, when you are ready.

7 CHAIRMAN GETZ: We are ready.

8 MS. THUNBERG: Staff did not reprint a  
9 list of exhibits for this hearing, because we just had one  
10 that we propose by agreement, and that is the Stipulation  
11 Agreement on permanent rates we propose to be Exhibit 7.

12 CHAIRMAN GETZ: It so marked.

13 (The document, as described, was  
14 herewith marked as Exhibit 7 for  
15 identification.)

16 (Whereupon Stephen P. St. Cyr and  
17 Mark A. Naylor was duly sworn and  
18 cautioned by the Court Reporter.)

19 STEPHEN P. ST. CYR, SWORN

20 MARK A. NAYLOR, SWORN

21 DIRECT EXAMINATION

22 BY MS. THUNBERG:

23 Q. Mr. St. Cyr, I'll start with you. If I could just have

24 you state your name and business address for the record

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[WITNESS PANEL: St. Cyr|Naylor]

1 please.

2 A. (St. Cyr) My name is Stephen P. St. Cyr. And, my

3 business address is 17 Sky Oaks Drive, Biddeford,

4 Maine.

5 Q. And, if you could just briefly describe what services

6 your company provides.

7 A. (St. Cyr) My company provides accounting, tax,

8 management, and regulatory services primarily to

9 utilities, specifically water and sewer companies.

10 Q. And, with respect to this docket, what services have

11 you provided to Eastman?

12 A. (St. Cyr) I was involved in the initial preparation of

13 the filing. I worked with the Company in responding to

14 data requests, and worked with the Staff in reaching

15 the agreements that we've reached in the proceeding.

16 Q. And, you participated in the hearings in this docket?

17 A. (St. Cyr) Yes, I have.

18 Q. Is it fair to say that you are familiar with the

19 exhibits that have been previously marked and admitted

20 in this proceeding?

21 A. (St. Cyr) Yes.

22 Q. And, Mr. Naylor, if I could just move to you and have

23 you state for the record your name and address.

24 A. (Naylor) Yes. Mark Naylor. I'm the Director of the

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[WITNESS PANEL: St. Cyr|Naylor]

1 Commission's Gas and Water Division. And, my business  
2 address is 21 South Fruit Street, Concord, New  
3 Hampshire.

4 Q. And, as Director of the Gas and Water Division, if you  
5 could just briefly describe your responsibilities?

6 A. (Naylor) Yes. I manage the Gas and Water staff, and am  
7 responsible for the staff's work product from the Gas  
8 and Water Division.

9 Q. And, with respect to this docket, if you could please  
10 describe what you have overseen and done?

11 A. (Naylor) Participated fully in a review of the  
12 Company's requests in this filing, and participated in  
13 preparation of the Settlement Agreement that we're  
14 presenting today.

15 Q. And, have you also participated in prior hearings in  
16 this docket?

17 A. (Naylor) Yes.

18 Q. And, are you familiar with the exhibits that have been  
19 identified and marked and admitted in this proceeding?

20 A. (Naylor) Yes.

21 Q. And, at this time, I'd like to just show you a  
22 document, Mr. Naylor, and have you identify it for the  
23 record please.

24 A. (Naylor) This is the Stipulation Agreement on Permanent

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[WITNESS PANEL: St. Cyr|Naylor]

1 Rates entered into between Staff and Eastman Sewer

2 Company that is under consideration this morning.

3 Q. And, did you participate or oversee people who

4 participated in drafting this document?

5 A. (Naylor) Yes, I did.

6 Q. And, you're familiar with the terms of this document?

7 A. (Naylor) I am.

8 Q. And, Mr. St. Cyr, if I could just have you identify

9 this for the record please.

10 A. (St. Cyr) This is the Stipulation Agreement on

11 Permanent Rates.

12 Q. And, did you participate in drafting this document?

13 A. (St. Cyr) Yes.

14 Q. And, I forgot to ask Mr. Naylor, but I will come back

15 to you. Mr. St. Cyr, are you aware of any changes or

16 corrections that ought to be made to this document?

17 A. (St. Cyr) No.

18 Q. And, Mr. Naylor, are you aware of any changes or

19 corrections that ought to be made to this document?

20 A. (Naylor) No.

21 MS. THUNBERG: Okay. I'll take back the  
22 copy. And, the Stipulation and Agreement is what the  
23 Company and Staff, by agreement, has requested to be  
24 marked as "Exhibit 7".

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[WITNESS PANEL: St. Cyr|Naylor]

1 BY MS. THUNBERG:

2 Q. Mr. Naylor, I'd like to start with you please. If I

3 could have you turn to Page 1 of the Stipulation

4 Agreement, and the bottom section, which runs over to

5 Page 2, relating to permanent rates. If you can just

6 tell me when you're there.

7 A. (Naylor) I'm there.

8 Q. If you could please explain for the record what level

9 of revenue requirement Staff and Eastman are proposing

10 the Commission approve?

11 A. (Naylor) The Staff and the Company have agreed that a

12 revenue requirement of \$139,140 is appropriate for

13 Eastman Sewer Company.

14 Q. Can you please state what the overall rate of return

15 the Staff and the Company are proposing?

16 A. (Naylor) Yes. The rate of return is 9.75 percent. The

17 Company has no debt capital at this time; it's all

18 equity.

19 Q. Thank you. That partially answered my next question,

20 but I wanted to just get some background as to how the

21 Staff and the Company arrived at 9.75. If you could

22 speak to that please.

23 A. (Naylor) That is the equity return that we have agreed

24 to recently in another water utility case, so that

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1 we're simply carrying that rate over to this one. The  
2 water and sewer utilities are pretty much the same  
3 risk, we believe.

4 Q. Thank you. Mr. Naylor, I'd like to have you turn to  
5 Page 8 of Exhibit 7, and this is a schedule that's  
6 entitled "Rate Base". Do you have that before you?

7 A. (Naylor) Yes, I do.

8 Q. I'd like to draw your attention to the far right  
9 column, "Proforma Rate Base". Do you see that?

10 A. (Naylor) Yes, I do.

11 Q. And, if you could just please read into the record what  
12 the total plant in service is listed as?

13 A. (Naylor) \$2,486,095.

14 Q. And, the total rate base at the bottom is?

15 A. (Naylor) \$78,700.

16 Q. And, would you agree there's quite a difference?

17 A. (Naylor) Yes, I would agree to that.

18 Q. And, is there an explanation from Staff as to why  
19 there's a difference?

20 A. (Naylor) Yes. The Eastman Sewer Company, in its first

21 and I believe only rate base, that goes back to the  
22 early '90s, at that time the Commission found the  
23 substantial majority of the plant in service was  
24 appropriately treated as contributed capital. And, so,

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[WITNESS PANEL: St. Cyr|Naylor]

1 very little of the original plant is in rate base, and  
2 it remains that way to this day. So, what we really  
3 have here is a substantially under capitalized utility,  
4 and it has been throughout its regulated life, if you  
5 will.

6 Q. Thank you. Mr. St. Cyr, I'd like to ask you a few  
7 questions. And, if you could just turn to Page 7, if  
8 you have that before you?

9 A. (St. Cyr) I do.

10 Q. And, the percent increase that Staff and the Company  
11 are proposing is a 24.41 percent overall increase in  
12 revenue requirement, is that correct?

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

14 Q. And, you prepared the initial filing for permanent  
15 rates in this case, is that right?

16 A. (St. Cyr) That's also correct.

17 Q. And, for comparison sake, can you explain what the  
18 Company initially sought for a permanent rate increase?

19 A. (St. Cyr) If you bear with me, I'm looking at the  
20 original filing, and just trying to get my revenue

21 requirement calculation.

22 Q. Mr. St. Cyr, if I may help. If I said that 18.74 or a

23 22 percent, in that range, was within the range of what

24 the Company was initially requesting, would that sound

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[WITNESS PANEL: St. Cyr|Naylor]

1 about right?

2 A. (St. Cyr) The Company initially requested a roughly

3 22 percent increase. The 18.74 percent that you

4 reference is the percent increase related to the

5 temporary rates.

6 Q. And, Mr. Naylor, what Staff and the Company are

7 proposing is higher than what the Company initially

8 sought, is that correct?

9 A. (Naylor) Yes, it's slightly higher.

10 Q. And, I'd like to just have you walk through on the

11 Settlement Agreement, there were some adjustments that

12 were made. And, if you could relate those adjustments

13 and how they explain why what the Staff and the Company

14 are proposing is higher than what the Company sought,

15 if you could speak to that please?

16 A. (Naylor) Yes. The actual difference in revenues is not

17 all that significant. The recommendation in the

18 Stipulation for a rate increase here is just slightly

19 higher percentagewise than what the Company sought.

20 And, the adjustments begin on Page 9 of the Agreement,

21 and go over to the next couple of pages. I think the  
22 one most significant is on Page 13, there's an  
23 adjustment for property tax expense, and a series of  
24 other adjustments that all net out to a slightly higher

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[WITNESS PANEL: St. Cyr|Naylor]

1 revenue requirement than the Company originally sought.

2 Q. And, if I could just follow up, Mr. Naylor, with the

3 property tax expense, is this something that relates to

4 the statewide property tax?

5 A. (Naylor) Yes, I believe that's correct.

6 Q. And, has the Department of Revenue been adjusting

7 utilities, in your experience here, upward?

8 A. (Naylor) Yes. The utilities have been seeing a

9 significant increase in the statewide property tax over

10 the last couple of years, and will continue to see

11 that. And, the normal pressure from local property

12 taxes also is an increase. So, that's detailed on

13 Attachment B, which is Page 17 of the Agreement.

14 Q. Okay. Mr. St. Cyr, if I could just turn back to you

15 and ask you if you recall the last time Eastman Sewer

16 came in for a rate case?

17 A. (St. Cyr) It was 1989, and the case was decided in

18 1990.

19 Q. Thank you. And, Mr. St. Cyr, I'd like to stay with you

20 please, and have you turn to the Temporary Rate

21 Reconciliation section, which is on Page 2 of Exhibit  
22 7. And, if you could just please explain to the  
23 Commissioners what Eastman is committing to regarding  
24 reconciling temporary and permanent rates?

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1 A. (St. Cyr) The Company has agreed to reconcile the  
2 difference between temporary and permanent rates. The  
3 Company will do a calculation to determine what that  
4 difference is. The Company will submit that difference  
5 to the Staff for a review. And, the Company and the  
6 Staff will make a joint recommendation to the  
7 Commissioners as to what that amount is and what the  
8 proposed recovery period for that amount should be.

9 Q. And, Mr. Naylor, if I could just ask you a question.  
10 When the Company's reconciliation report comes in, is  
11 it Staff's intent that they will review and provide the  
12 Commissioners with a recommendation on the  
13 reconciliation?

14 A. (Naylor) Yes, it is.

15 Q. And, at that point, is it Staff's understanding that  
16 the Commission will then approve a reconciliation  
17 amount?

18 A. (Naylor) Yes.

19 Q. Mr. St. Cyr, if I could just have you turn to Page 16  
20 please of Exhibit 7. And, that's the schedule "Report

21 of Proposed Rate Change".

22 A. (St. Cyr) Okay.

23 Q. Now, I'd like to get on the record the impact to

24 customers from the proposed rate increase. And, if you

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1     could just walk us through this schedule and show us  
2     how the rate is changing for customers.  
3    A. (St. Cyr) Yes. This is the Report of the Proposed Rate  
4     Change. It really consists of two rates; a rate for  
5     the sewer service and a rate for the capital reserve.  
6     And, then, we sum the two rates together to get to the  
7     total that we actually bill customers. There's two  
8     components. Mr. Naylor earlier talked about the  
9     Company and Staff agreeing to a revenue requirement of  
10    139,140, that's shown in the column identified as  
11    "Proposed Revenue", and it's the third line down. That  
12    represents a \$27,299 increase over the present  
13    authorized level of revenues, and turns out to be a  
14    24.41 percent increase. In addition to that, the  
15    revenue associated with the capital reserve is 62,862,  
16    and that represents a 52,854 increase over the present  
17    level of authorized revenues. That represents a  
18    significant increase, and that increase is -- will  
19    enable the Company to pay back the principal and  
20    interest on the loan that it plans to issue -- enter

21     into in order to fund the capital improvements that the  
22     Commission previously approved. For a total average  
23     residential customer, that rate will be \$372.06 per  
24     year, and overall represents a 66.6 percent increase

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1 over the present level of rates.

2 Q. I'm sorry, Mr. St. Cyr. This \$372, does that include a  
3 future step increase, did you say?

4 A. (St. Cyr) Yes, it does.

5 Q. So, at this point, with approval of permanent rates, do  
6 you know what that amount is going to be?

7 A. (St. Cyr) The amount, with the approval of permanent  
8 rates, assuming that the Commission approves what we've  
9 proposed, would be \$273.27. And, what that represents  
10 is the total revenue for residential customers, divided  
11 by the total number of customers, plus the present  
12 authorization of the capital reserve component. It's  
13 those two pieces that customers would see beginning  
14 with their next bill.

15 Q. And, Mr. St. Cyr, I have the tariff in front of me, and  
16 I don't know if you need to refresh your recollection  
17 for my next question, but I wanted to ask you to  
18 compare what the temporary rate bill the customers are  
19 paying now and how that compares to the \$273. Do you  
20 have that figure or would you like to see the tariff?

21 A. (St. Cyr) I do have that figure. Under temporary  
22 rates, the Company is currently charging its  
23 residential customers \$261.68 per year. With the  
24 Commission's approval of the permanent rate, that

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1 amount would go to the \$273.27, roughly an  
2 \$11.59 increase over the present authorized temporary  
3 rates.

4 Q. And, that's \$11 plus something per year?

5 A. (St. Cyr) \$11.59 per year.

6 Q. Yes. Mr. Naylor, with respect to the permanent rates  
7 that are proposed in the Settlement Agreement, does  
8 Staff have a position on the just and reasonableness of  
9 those proposed rates?

10 A. (Naylor) Yes. We believe that the rates proposed in  
11 the Agreement are just and reasonable.

12 Q. And, Mr. St. Cyr, does the Company have an opinion on  
13 the just and reasonableness of the rates?

14 A. (St. Cyr) We also believe that the rates are just and  
15 reasonable.

16 Q. Okay. And, Mr. St. Cyr, did you participate in the  
17 financing portion of this docket?

18 A. (St. Cyr) I did.

19 Q. And, do you recall the capital improvements that were  
20 the subject of the financing?

21 A. (St. Cyr) Yes.

22 Q. And, can you please briefly describe those for the

23 record?

24 A. (St. Cyr) The total estimated cost of the capital

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1 additions were \$344,534. And, it was for improvements

2 at West Cove B pump station, a grinder, influent flow

3 meter and pH meter, headworks modifications, including

4 engineering, building improvements, and site work.

5 Improvements at West Cove B pump station, including a

6 pump replacement, a generator, and transfer switch.

7 And, finally, improvements at West Cove A overflow

8 structure.

9 Q. And, Mr. St. Cyr, did you participate in the drafting

10 of the Financing Stipulation that was presented to the

11 Commissioners?

12 A. (St. Cyr) Yes.

13 Q. And, in that Stipulation Agreement, did the Company and

14 Staff state that any rate impact would be dealt with in

15 the permanent phase of the docket?

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

17 Q. And, when we look at Exhibit 7, Pages 3 and 4, and, in

18 particular, Paragraph D, "Step Adjustment for Capital

19 Additions", and, Paragraph E, "Step Adjustment for

20 Capital Additions as CIAC", are the capital additions

21      that you just described the capital additions that are

22      referred to in these two paragraphs?

23   A.   (St. Cyr) Yes.

24   Q.   Or, two sections, excuse me. And, Mr. St. Cyr, I just

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[WITNESS PANEL: St. Cyr|Naylor]

1 have another question about the step adjustments. If  
2 you could just explain the mechanics that Staff and the  
3 Company are proposing as to how the Company will go  
4 about seeking a step adjustment to rates?

5 A. (St. Cyr) Yes. The Company, first of all, has to  
6 complete the projects --

7 (Court reporter interruption.)

8 BY THE WITNESS:

9 A. (St. Cyr) The Company has to complete the projects.  
10 Once the projects are completed and the costs are  
11 finalized, the Company will submit the documentation of  
12 those costs to the Commission Staff for review and  
13 audit. Upon Staff's review, the Company and the Staff  
14 would make a joint recommendation to the Commissioners  
15 on the amount of the step adjustment.

16 BY MS. THUNBERG:

17 Q. Thank you. Mr. Naylor, I'd like to turn to you and  
18 have you explain Sections D and E of the Stipulation  
19 Agreement. And, in particular, if you could speak to  
20 some of the unique treatments that Staff and the

21 Company are proposing the Commission approve?

22 A. (Naylor) Yes. What we've agreed to is, because the

23 Company has acquired a ten year financing for these

24 improvements, what we've agreed to is essentially treat

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[WITNESS PANEL: St. Cyr|Naylor]

1 the principal and interest payments on that financing  
2 as revenues going into the Capital Reserve Fund, and  
3 then being paid -- the loan payments being made out of  
4 the Capital Reserve Fund. That's described in Section  
5 D.

6 Overall, I think, as the Commission  
7 considered in the financing portion of this docket, I  
8 think the Company has gotten a fairly favorable loan  
9 interest rate. We would prefer to see the term of it a  
10 little longer than ten years. But what happens is,  
11 without some unique treatment of repayment of the loan,  
12 the Company would be looking at a substantial cash flow  
13 deficit. Under traditional ratemaking, we would put  
14 the assets into rate base, the Company would earn a  
15 return on them. It would get depreciation expense in  
16 its rates that would essentially equal the principal  
17 payments. But, because utility assets are such  
18 long-lived, the Company would have a substantial cash  
19 flow deficit.

20 So, we felt that the way to deal with

21     this, in consideration that Eastman is really,  
22     essentially, a nonprofit company, and is owned by a  
23     nonprofit entity, that we would treat the principal and  
24     interest payments as the -- it essentially forms the

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[WITNESS PANEL: St. Cyr|Naylor]

1 basis of the step adjustment revenues. And, there's no  
2 return to the Company on the assets. They're simply  
3 payments to be made from the capital reserve.

4 Q. Mr. Naylor, with respect to the principal and interest  
5 and the term of the loan, once the loan ceases after  
6 ten years, will there be a different amount applied to  
7 the capital reserve?

8 A. (Naylor) Yes, there would have to be. It's not  
9 explicit in the Agreement. But, it's certainly our  
10 understanding that, based on this treatment, once that  
11 loan is paid off, that the step adjustment revenues  
12 would cease, the customers would no longer be paying  
13 for that step adjustment, the assets would be  
14 considered to be paid off.

15 Q. Okay. Mr. Naylor, you started touching a little bit  
16 upon the treatment, but I want to move on specifically  
17 and ask you, on Section E, with the CIAC treatment, if  
18 you could please just describe how and why CIAC should  
19 be adjusted in light of the step adjustment?

20 A. (Naylor) Yes. Because we've agreed to this rather

21      unique treatment, the Staff and the Company have agreed  
22      that the assets will be placed on the books of the  
23      Company, but offsetting CIAC will also be booked. So  
24      that, for rate base purposes, the assets have zero

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[WITNESS PANEL: St. Cyr|Naylor]

1 value. Because the Company is going to be receiving  
2 revenues from customers that are -- that are dedicated  
3 to making loan payments, the Company will, at the time  
4 the assets are completed, will also book essentially an  
5 accounts receivable on its balance sheet, and that  
6 receivable will represent a receivable of principal  
7 payments from customers, is really what it amounts to.

8 That's described in Paragraph E, on Page 4. And, we  
9 really feel that that's an appropriate way to treat  
10 this, because of the relatively short term of the loan.

11 Q. Okay. And, I just want to have you summarize this  
12 unique deviation or deviation from traditional  
13 ratemaking that you've just described is not something  
14 that Staff is advocating for other companies. It's  
15 just because of the unique circumstances of how Eastman  
16 is capitalized, is that correct?

17 A. (Naylor) That's correct. We pointed out earlier that,  
18 for a company that has \$2.3 or \$2.4 million in plant in  
19 service on its books, it essentially has very little,  
20 if any, rate base. So, it's not generating a return,

21     it's not generating any depreciation expense. And,  
22     because of the term of the loan particularly,  
23     traditional ratemaking would put the Company into a  
24     severe cash flow deficit. They simply would not be

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[WITNESS PANEL: St. Cyr|Naylor]

1     able to make payments on this ten year loan for these  
2     improvements that are very necessary. So, that's why  
3     we have agreed to this treatment.

4    Q. Mr. Naylor, if I could have you move on to Section F,  
5     "Capital Reserve Fund". And, I'd just like to get on  
6     the record why Staff feels that it is beneficial to  
7     have this fund continued, and beneficial for the  
8     Company and the customers, if you can respond to that  
9     please?

10   A. (Naylor) Yes. The existing Capital Reserve Fund has  
11     been in place since the Commission's final order in DR  
12     90-170. Essentially, customer rates provide \$10,008  
13     annually, which goes into a Capital Reserve Fund. The  
14     Company has use of those funds only with specific  
15     authorization from the Commission for capital items,  
16     and any assets that are purchased or constructed with  
17     those funds are booked as contributed. We believe it's  
18     beneficial for that to continue. It's certainly not a  
19     lot of funds. But I think the establishment of that  
20     account has certainly been beneficial to both the

21 Company and its customers over the years.

22 Q. Mr. St. Cyr, I did not ask you any specific questions

23 on Sections D, E, and F. And, since you don't have

24 counsel of your own, I just thought I'd give you an

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1 opportunity to make any comments on these sections that

2 we just covered, if you have any.

3 A. (St. Cyr) The Company and Staff did work on this

4 particular arrangement. And, it's not significantly

5 different than the arrangement that's currently in

6 place. In the Company's perspective, you know, we're

7 essentially looking to continue the existing

8 arrangement, and believe that, in this Company's unique

9 circumstance, it's the best arrangement. The short

10 story is that they would be unable to borrow the funds

11 and to make payments on those funds, if such

12 arrangement wasn't put in place.

13 Q. And, you said "make payment on the funds", you're

14 talking about the ten year loan?

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

16 Q. Okay. And, Mr. St. Cyr, I'd like to continue with you.

17 With respect to the rate case expenses, if you could

18 just describe the mechanics of what the Company will do

19 for rate case expenses?

20 A. (St. Cyr) The Company has incurred rate case expenses.

21     It -- Upon the issuance of an order in this particular  
22     proceeding, the Company will submit its rate case  
23     expenses to Staff for Staff's review. Once Staff has  
24     had an opportunity to review them, the Company and

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1 Staff anticipate filing a joint recommendation with  
2 respect to the rate case expenditures. And, we may  
3 combine that with the difference in temporary and  
4 permanent rates.

5 MS. THUNBERG: Okay. Thank you,  
6 Commissioners. Staff and the Company are finished with  
7 our direct presentation.

8 CMSR. BELOW: A couple of questions.

9 BY CMSR. BELOW:

10 Q. Mr. Naylor, what would be the typical depreciation life  
11 for the assets that would be financed with the loan?

12 A. (Naylor) I don't know exactly.

13 A. (St. Cyr) I may be better able to address that.

14 Q. Okay.

15 A. (St. Cyr) The life for the structures of the buildings,  
16 for example, has a 40 year life. The life for the  
17 pumps would be a 20 year life -- I'm sorry, the pumps  
18 would be a 10 year life. The life of some of the  
19 other, the grinder or the meters, they would vary,  
20 depending on the particular asset. So, it ranges

21 really from 10 on the short side, to probably 40 on the  
22 long side for the structural components of the  
23 building.

24 Q. The point being that, on average, they would be

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1 significantly longer than the 10 year amortization of  
2 the loan?

3 A. (St. Cyr) That is correct.

4 Q. And, would it be fair to say that most, if not all, of  
5 the property owners that are served by Eastman Sewer  
6 Company, Inc. have some say of the governance of it  
7 through their election of directors of the Eastman  
8 Community Association, a nonprofit entity?

9 A. (St. Cyr) Yes.

10 CMSR. BELOW: Okay.

11 CHAIRMAN GETZ: Okay. No other  
12 questions from the Bench. Is there anything further for  
13 the panel?

14 MS. THUNBERG: Yes, Staff just has a  
15 follow-up, in light of Commissioner Below's question.

16 REDIRECT EXAMINATION

17 BY MS. THUNBERG:

18 Q. Mr. Naylor, when this ten year loan -- or, when the ten  
19 years terminates for the loan, and the adjustments for  
20 the principal and interest going into the capital

21      reserve that have been described in Section D, are you  
22      foreseeing that the Company will need to come in for  
23      like a rate case to readjust rates?

24   A.   (Naylor) Yes. Yes. That's correct. We've structured

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1 the step adjustment and the revenues that come from the  
2 step adjustment to mirror the annualized principal and  
3 interest payments. So, you know, all else being equal,  
4 those revenues should decrease -- should be eliminated  
5 at the end of the loan.

6 MS. THUNBERG: Okay. Thank you.

7 CHAIRMAN GETZ: Okay. Then, appears  
8 there's nothing other for the witnesses. So, the  
9 witnesses are excused. Thank you. Any objection to  
10 admitting Exhibit 7 into evidence?

11 MS. THUNBERG: No.

12 CHAIRMAN GETZ: Hearing no objection, it  
13 will be admitted into evidence. And, I take it there are  
14 no other procedural issues. So, opportunity for closing.  
15 Ms. Thunberg.

16 MS. THUNBERG: Briefly, the Staff and  
17 the Company have gone through a lengthy proceeding here,  
18 looking at temporary rates and the financing and permanent  
19 rates. And, from Staff's perspective, we feel that the  
20 Company is good to go. And, we appreciate your

21 consideration of the Stipulation Agreement and the unique  
22 treatment that we've proposed to accommodate the principal  
23 and interest payments that the Company is going to need to  
24 make. And, just remind the Commissioners that part of the

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1    financing portion of the docket was to cover a loan that  
2    the Company had to make from its nonprofit parent just to  
3    pay operating expenses. So, it's very real that Staff  
4    needed to tweak their cash flow to meet the loan payments  
5    that are expected.

6                    The only other issue that I know that is  
7    going to be coming up soon is, with respect to the  
8    financing, there may be some more beneficial terms that  
9    may be developing. So, we're not quite done with this  
10   company yet with this proceeding. We made need to just  
11   revisit modifying the financing terms that the Commission  
12   has previously approved.

13                   So, with that, thank you for your  
14   consideration.

15                   CHAIRMAN GETZ: Thank you. Mr. St. Cyr.

16                   MR. ST. CYR: We, too, believe that  
17   we're good to go. And, that we respectfully request that  
18   the Commissioners approve the Settlement Agreement. We  
19   appreciate Staff working with us, and look forward to your  
20   order.

21 CHAIRMAN GETZ: All right. Thank you.

22 Then, we'll close the hearing and take the matter under

23 advisement.

24 (Whereupon the hearing ended at 10:48 a.m.)

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