

1 **STATE OF NEW HAMPSHIRE**2 **PUBLIC UTILITIES COMMISSION**

3
4 **September 15, 2010 - 2:28 p.m.**
5 Concord, New Hampshire

6
7 RE: **DW 10-091**
8 **PENNICHUCK WATER WORKS, INC.:**
9 **Notice of Intent to File Rate**
10 **Schedules.**
11 **(Hearing regarding Temporary Rates)**

12 **PRESENT:** Chairman Thomas B. Getz, Presiding
13 Commissioner Clifton C. Below
14 Commissioner Amy L. Ignatius

15 Sandy Deno, Clerk

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

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

20 **Reptg. Residential Ratepayers:**
21 Rorie E.P. Hollenberg, Esq.
22 Kenneth E. Traum, Asst. Consumer Advocate
23 Office of Consumer Advocate

24 **Reptg. PUC Staff:**
 Marcia A.B. Thunberg, Esq.
 Mark A. Naylor, Director/Gas & Water Division
 James L. Lenihan, Gas & Water Division
 Jayson P. LaFlamme, Gas & Water Division

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

I N D E X

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 DONALD L. WARE
 MARK A. NAYLOR

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1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good afternoon.
3 We'll open the hearing in Docket DW 10-091. On May 7,
4 2010, Pennichuck Water Works filed schedules and materials
5 supporting a proposed rate increase and a Petition for
6 Temporary Rates. We issued an order on June 4, 2010
7 suspending the proposed tariffs and scheduling a
8 prehearing conference. A prehearing conference was held
9 on July 14, and subsequently a secretarial letter was
10 issued approving a procedural schedule, including a
11 hearing on temporary rates for this afternoon. We
12 received on September 8 a Settlement Agreement between
13 Staff and Pennichuck Water Works that will be the subject
14 of the hearing this afternoon.

15 Can we take appearances please.

16 MS. KNOWLTON: Good afternoon, Chairman
17 and Commissioners. My name is Sarah Knowlton. I'm with
18 the McLane law firm. And, I'm here today for Pennichuck
19 Water Works, Inc. And, with me from the Company today is
20 Bonalyn Hartley, Donald Ware, and Charles Hoepper.

21 CHAIRMAN GETZ: Good afternoon.

22 MR. ALEXANDER: Good afternoon. John
23 Alexander, with Ransmeier & Spellman, on behalf of
24 Anheuser-Busch.

1 CHAIRMAN GETZ: Good afternoon.

2 MS. HOLLENBERG: Good afternoon. Rorie
3 Hollenberg, here for the Office of Consumer Advocate, and
4 with me today is Ken Traum.

5 CHAIRMAN GETZ: Good afternoon.

6 MS. THUNBERG: Good afternoon. Marcia
7 Thunberg, on behalf of Staff. With me today is Mark
8 Naylor, Jim Lenihan, and Jayson LaFlamme. And, today, the
9 Company and Staff would like to present a panel, the
10 witnesses comprised of Ms. Hartley, Mr. Ware, and Mr.
11 Naylor. And, we would ask that we be allowed to do our
12 direct and friendly cross, and then have the panel opened
13 up for cross by the other parties, just for efficiency for
14 today's hearing.

15 CHAIRMAN GETZ: Okay. Thank you. Sir.

16 MR. MEIGHAN: I'm Patrick Meighan with
17 the Nashua Telegraph.

18 CHAIRMAN GETZ: Okay. Thank you.
19 Ms. Knowlton, are you ready to proceed?

20 MS. KNOWLTON: I am. One procedural
21 matter. The Company would ask that the following
22 documents be marked for identification: Exhibit 1 would
23 be the Company's Petition for Temporary Rates, and the
24 Prefiled Direct Testimony of Mrs. Hartley and Mr. Ware in

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1 support of temporary rates; and then Exhibit 2 is the
2 Settlement Agreement that's before the Commission today,
3 dated September 8th, 2010.

4 CHAIRMAN GETZ: They will be so marked.
5 (The documents, as described, were
6 herewith marked as **Exhibit 1** and
7 **Exhibit 2**, respectively, for
8 identification.)

9 MS. KNOWLTON: With that, the Company
10 calls Donald Ware and Bonalyn Hartley.

11 (Whereupon *Bonalyn J. Hartley, Donald L.*
12 *Ware*, and *Mark A. Naylor* were duly sworn
13 and cautioned by the Court Reporter.)

14 **BONALYN J. HARTLEY, SWORN**

15 **DONALD L. WARE, SWORN**

16 **MARK A. NAYLOR, SWORN**

17 **DIRECT EXAMINATION**

18 BY MS. KNOWLTON:

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

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

22 Q. By whom are you employed?

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

24 Q. What is your position with the Company?

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1 A. (Ware) I am President of Pennichuck Water Works.

2 Q. How long have you been with the Company?

3 A. (Ware) I've been with the Company for 15 years.

4 Q. Good afternoon, Ms. Hartley.

5 A. (Hartley) Good afternoon.

6 Q. Would you please state your full name for the record.

7 A. (Hartley) Bonalyn J. Hartley.

8 Q. By whom are you employed?

9 A. (Hartley) Pennichuck Water Works.

10 Q. In what capacity?

11 A. (Hartley) Vice President of Administration and
12 Regulatory Affairs.

13 Q. How long have you worked for the Company?

14 A. (Hartley) Thirty-one years.

15 Q. Mr. Ware and Ms. Hartley, I'll start with you, if you
16 would look at the documents that have been marked as
17 Exhibit 1 today. Do you have those before you?

18 A. (Ware) Yes.

19 Q. I'll start with you, Mr. Ware. If you would look at
20 the Joint Prefiled Direct Testimony Regarding Temporary
21 Rates, that is sponsored by you and Mrs. Hartley, was
22 that testimony prepared by you or under your direction?

23 A. (Ware) Yes, it was.

24 Q. Is it true and correct to the best of your belief?

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1 A. (Ware) Yes, it is.

2 Q. Do you have any corrections to that testimony?

3 A. (Ware) No.

4 Q. If I were to ask you the questions in your testimony
5 today, would the answers be the same?

6 A. (Ware) Yes.

7 Q. Mrs. Hartley, looking at that same testimony, was that
8 prepared by you or under your direction?

9 A. (Hartley) Yes, it was.

10 Q. And, to the best of knowledge, is it true and correct?

11 A. (Hartley) Yes.

12 Q. Do you have any corrections to make to your testimony?

13 A. (Hartley) No, I do not.

14 Q. If I were to ask you the questions in your testimony
15 today, would the answers be the same?

16 A. (Hartley) Yes.

17 Q. Ms. Hartley, I'll start with you. Are you familiar
18 with the Settlement Agreement that's been marked as
19 "Exhibit 2"?

20 A. (Hartley) I am.

21 Q. Was that Settlement Agreement -- the formulation of
22 that Settlement Agreement a process that you
23 participated in?

24 A. (Hartley) Yes, it was.

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1 Q. And, Mr. Ware, is that the case for you as well?

2 A. (Ware) Yes.

3 Q. Mrs. Hartley, was this Settlement the result of
4 compromise between the Company and the Staff of the
5 Commission?

6 A. (Hartley) It was.

7 Q. If you would walk us through the Settlement Agreement,
8 starting with Page 2, Section III, "Terms of
9 Agreement".

10 A. (Hartley) The Settlement Agreement proposes a
11 10.81 percent increase for purposes of temporary rate,
12 resulting in a revenue requirement of \$2,604,524.

13 Q. And, the \$2,604,524, those are the additional revenues
14 that will be generated by the temporary rate increase?

15 A. (Hartley) That is correct.

16 Q. Mr. Ware, what are the primary drivers behind that,
17 that need for an increase?

18 A. (Ware) There are really three primary drivers. First
19 is the Company's continued investment in both the
20 completion of its upgrade to its water treatment plant,
21 and also replacement of aging infrastructure. Since
22 the last rate case, the Company has spent about 4.3
23 million to complete the treatment plant, and an
24 additional slightly over 6 million to replace aging

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1 infrastructure.

2 Additionally, as mentioned in the PAC
3 rate case, we've seen a reduction in overall
4 consumption that's occurred, and this is what we call
5 "base consumption", non-wintertime consumption, an
6 overall decrease of 17 percent. But, to kind of put it
7 into buckets, residential consumption over the last
8 three years, during the winter months, so, in base
9 consumption, is off by about 9.3 percent. Commercial
10 consumption is off by about 7 percent over the same
11 three-year period. And, industrial consumption,
12 exclusive of Anheuser-Busch, is down over 34 percent.
13 So, a large reduction in consumption. And, also, we've
14 seen some increase in operating expenses, primarily,
15 one of the biggest one is property taxes, which are up
16 about \$410,000.

17 Q. If you would look at the last page of Exhibit 2, which
18 is the rate schedule for non-metered customers. Does
19 that rate schedule reflect anywhere that decrease in
20 consumption that you were just describing?

21 A. (Ware) Yes. If you look at the "Average Single Family
22 Residential Usage", you know, it showed the "9.53"
23 hundred cubic feet per month, that was from the last
24 case. And, it's currently at "7.88" hundred cubic

1 feet.

2 Q. Ms. Hartley, what does the Settlement Agreement provide
3 with regard to the design of the rates for a temporary
4 rate purpose?

5 A. (Hartley) The Company has filed a cost of service study
6 with the case. However, we've agreed to maintain its
7 present rate design, and to recover the revenues on a
8 pro rata basis from all customers.

9 Q. When would the temporary rates take effect, based on
10 the Settlement Agreement?

11 A. (Hartley) June 16th, 2010.

12 Q. Okay. And, if you would look at Paragraph III.C of the
13 Settlement Agreement, which is on Page 3 of 5.

14 A. (Hartley) Yes.

15 Q. This language in Section III.C, as the agreement was
16 filed with the Commission, provides for a recoupment of
17 the difference should temporary rates be approved by
18 the Commission from June 16th forward, to the date of
19 the order putting rates into effect. Is that language
20 that the Company has made any changes to since this
21 document was filed?

22 A. (Hartley) Yes. In efforts to compromise, and in this
23 incident, the Company has agreed that we will
24 eliminate, and with Staff, to eliminate the language

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1 subsequent to where it says "rendered on and after
2 June 16, 2010", we would put a period there, and we
3 would propose to eliminate "and will be recouped from
4 customers in equal installments over a five month
5 period."

6 Q. Are there any other changes to the Settlement Agreement
7 that you're aware of?

8 A. (Hartley) No.

9 Q. And, is it your understanding that, with that language
10 being struck from the Agreement, that the Company would
11 recover those revenues from June 16th, 2010, between
12 that date and the date of an order approving temporary
13 rates, should the Commission issue such an order, that
14 that would be recovered at the conclusion of the case,
15 when permanent rates were put into effect?

16 A. (Hartley) Yes. It was my understanding that that would
17 be the process.

18 Q. Okay. The Settlement Agreement refers to an effective
19 date as "service rendered on and after June 16, 2010."
20 What is the basis for that date?

21 A. (Hartley) The customers in Pennichuck Water Works were
22 noticed in four different methodologies. The first was
23 on June 16th, 2010, which we processed a display ad, in
24 concert with the Consumer Affairs Division here at the

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1 PUC, and that was published in the Nashua Telegraph on
2 June 16th. As well as the original order was published
3 in the Telegraph on June 16th. In addition to that, on
4 June 16th, postmarked, I want to make sure that that's
5 clear, there was a mailing to every customer in
6 Pennichuck Water Works, they got a copy of the original
7 order, and a cover letter went with that. In addition
8 to that, subsequent to that, around the July time
9 frame, I believe it was around July 12th, the Company
10 has traditionally sent out newsletters to its
11 customers. And, as part of that, not that it's on
12 file, but just to let you know that we also notified
13 customers about our request for the rate increase and
14 the amount and why, and the drivers for that increase.
15 So, the customers of Pennichuck Water Works really have
16 been noticed in four different methodologies.

17 Q. If you would turn to the Report of Proposed Rate
18 Changes, which is the page that follows Page 5 of 5 of
19 the Settlement Agreement.

20 A. (Hartley) Yes.

21 Q. Do you have that before you? What does this -- what
22 does this report show?

23 A. (Hartley) Well, again, the Company is asking for an
24 overall increase or proposing in the Settlement with

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1 Staff an overall increase of 10.8 percent. And, this
2 proposed -- this Report of Proposed Rate Changes shows
3 the overall effect of the 10.8 percent. Certain
4 contracts are not subject to increase, they're fixed,
5 and, therefore, they do not show an increase here,
6 which creates a slight variation for the increase to
7 10.85 percent. For example, the "General-Metered"
8 customers, we're proposing rates at "\$21,191,255", an
9 increase of "\$2,074,200", resulting in an effective
10 increase of "10.85 percent".

11 And, then, similarly, as we go on down
12 through, the "Private Fire Protection" would also
13 receive an effective increase of "10.85 percent", or a
14 \$92,483 increase. The Public Fire Hydrant accounts
15 would receive a "10.85 percent" increase, or an
16 effective increase of \$305,663. "Anheuser-Busch" would
17 receive also a "10.85" effective increase, or a
18 "\$93,532" increase. And, then, because there is no
19 increase to the contracts, there would be no increase
20 for the Milford contract, but there would be an
21 increase for the component of the Milford contract for
22 the Volumetric Charge, which would then also be an
23 effective increase of "10.85 percent", or "\$9,527".
24 And, then, there's a component of the Hudson contract

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1 that is not subject to the increase, because it is
2 fixed. But they also have a volumetric component,
3 which would also have an effective increase of
4 "10.85 percent", or "\$28,880". The total overall
5 increase is "\$2,604,285", and 10.81 percent, in this
6 case, there was some surrounding, I guess, so it shows
7 as "10.8".

8 Q. If you would turn to the next page, this appears to
9 reflect a calculation of the rate impact on a typical
10 residential customer. Can you walk us through that
11 calculation?

12 A. (Hartley) Yes, I'd be glad to. Currently, the average
13 residential customer, utilizing a 5/8ths meter, has a
14 monthly charge of \$18.18. The 10.80 percent increase
15 would result in "20.15 percent". And, the average
16 consumption for the -- current average consumption for
17 the Pennichuck Water Works residential customer is
18 "7.88" hundred cubic feet. Utilizing that as a
19 component for multiplying the volumetric rate at
20 "\$3.21", this will result in a "\$25.29" increase, on an
21 average, per month for the volumetric component. The
22 total monthly bill will increase from "\$41.03", on an
23 average, to "\$45.44". Annualized, that would result in
24 an increase from "\$492.36" to "\$545.28". The

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1 incremental increase for the residential customers,
2 single family in Pennichuck Water Works, is
3 approximately "\$4.41" per month, and annualized
4 "\$52.92".

5 Q. The pages that follow the proposed rate impact on
6 residential customers, are these the tariff pages for
7 Pennichuck Water Works' various customer classes?

8 A. (Hartley) Yes, it is.

9 Q. And, what do these tariff pages reflect?

10 A. (Hartley) They reflect the proposed temporary increase
11 of 10.81 percent. And, the first -- the first page is
12 the General-Metered rate. And, it shows the current
13 rate, plus the proposed temporary increase for each of
14 the meter sizes, as well as the Volumetric Charge of
15 "\$2.90", with an increase to "\$3.21" per hundred cubic
16 feet. And, then, on the next page, we have the
17 Municipal Rate [Fire?] Protection Service for fire
18 protection, and that shows the increases from -- for
19 each hydrant connected to the distribution system, from
20 "17.16" per month to "19.02" per month. And, then, we
21 charge for an inch-foot unit for the size pipes for the
22 Public Fire Protection. And, that increases from
23 "0.11828" per year to "0.13111" per year.

24 And, then, we also have a schedule

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1 showing the Private Fire Protection rates, and the
2 increases for the three different components regarding
3 Private Fire Protection: An increase to "61.74" for
4 the four-inch; the six-inch increases to "103.60"; and
5 the eight-inch increases to "152.53". And, then,
6 finally, the page that we had referred to previously is
7 a "temporary" -- well, it's a flat rate for services
8 that temporarily are waiting to have meters set. And,
9 it's based on, again, the average consumption that's
10 used by a single family residential customer. And,
11 that results in a proposed increase of -- to "45.44"
12 per month, from "45.82". Oh, and the reason, this is
13 an interesting schedule, because, in the current rate,
14 if you see the "9.53" as Mr. Ware has demonstrated,
15 actually, the flat rate's going to go down. I wanted
16 to correct that. And, that's because the average
17 single family residential customer usage has gone down
18 to "7.88" hundred cubic feet per month. So, in our
19 last case, we were experiencing "9.53" hundred cubic
20 feet per month, and now we're experiencing "7.88"
21 hundred cubic feet, actually results in a decrease for
22 the flat charge.

23 Q. Mrs. Hartley, if the Commission approves the Settlement
24 Agreement that's before it, and puts temporary rates

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1 into effect, at the conclusion of this case, when
2 permanent rates are put into effect, would there be a
3 reconciliation between those permanent and temporary
4 rates?

5 A. (Hartley) Yes.

6 Q. How does, in a general sense, can you describe how the
7 Company conducts that reconciliation?

8 A. (Hartley) Yes. The Company's computer system can
9 calculate on an individual basis, for each customer,
10 what that reconciliation would be. In some cases, some
11 customers might get a refund and, in some cases, some
12 customers may be extra charged. It's an extremely fair
13 way of reconciling the differences between permanent
14 and temporary rates.

15 Q. Mrs. Hartley, in your opinion, is the Settlement
16 Agreement, as proposed, will it result in just and
17 reasonable rates?

18 A. (Hartley) Yes.

19 Q. And, Mr. Ware, do you have an opinion about that?

20 A. (Ware) Yes. I believe that it will result in just and
21 reasonable rates.

22 Q. And, Mr. Ware, do you believe that the Settlement
23 Agreement is in the public interest?

24 A. (Ware) Yes, I do.

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1 Q. And, Mrs. Hartley, do you have an opinion about that?

2 A. (Hartley) Yes, I do.

3 MS. KNOWLTON: I have no further
4 questions for the witnesses.

5 CHAIRMAN GETZ: Thank you.

6 BY MS. THUNBERG:

7 Q. Mr. Naylor, I'd like to get your name and
8 responsibilities for the Commission on the record
9 please.

10 A. (Naylor) Yes. My name is Mark Naylor. I'm the
11 Director of the Gas and Water Division.

12 Q. And, what are your responsibilities as Director of the
13 Gas and Water Division? Could you explain please.

14 A. (Naylor) I'm responsible for all of the staff's work
15 product and managing the Staff in that division.

16 Q. Can you please describe your involvement with this
17 docket?

18 A. (Naylor) Yes. I've reviewed the Company's filing, both
19 the permanent rate filing and the temporary rate
20 filing, and all of the testimony and the schedules, and
21 participated in discovery.

22 Q. Did you review what we consider the books and records
23 on file with the Commission?

24 A. (Naylor) Yes. That would be the Company's 2009

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1 operating results. And, I did review those results.

2 Q. Did you participate in the preparation of a settlement
3 agreement?

4 A. (Naylor) Yes.

5 Q. And, we've had marked for identification as "Exhibit 2"
6 a settlement agreement. Is that the document that you
7 participated in?

8 A. (Naylor) Yes.

9 Q. And, you're familiar with the terms of that document?

10 A. (Naylor) Yes, I am.

11 Q. Ms. -- actually, I don't know if it was Mrs. Hartley or
12 Mr. Ware that talked about a correction to the
13 Settlement Agreement. And, are you aware of that
14 correction?

15 A. (Naylor) Yes, I am. On Page 3, Paragraph C, Staff and
16 the Company agreed to strike certain language.

17 Q. And, I'd like you to briefly state what is Staff's
18 reasons for recommending the Commission approve a
19 temporary increase in the Company's revenue requirement
20 and the resulting rates?

21 A. (Naylor) Well, from our review of the test year
22 results, it is clear that, based on the reports on file
23 with the Commission, the Company is experiencing a
24 revenue deficiency. And, also, based on the Company's

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1 calculation of its request for permanent rate, we felt
2 that the temporary rate the Company sought in its
3 Temporary Rate Petition was reasonable. And, that's
4 why we have entered into this Agreement, to recommend
5 that rate to the Commission.

6 Q. Does Staff have any concerns that the temporary rate,
7 if approved by the Commission, will put the Company in
8 an over earnings situation?

9 A. (Naylor) No.

10 Q. And, are there any benefits to the customers for having
11 the temporary rate in place?

12 A. (Naylor) It's certainly going to help mitigate
13 potential rate shock. As I indicated, based on the
14 Company's permanent rate request, this temporary rate
15 would help to step up rates during the period that we
16 review the permanent request. So, it would certainly
17 help to mitigate the potential rate shock.

18 Q. I'd like to move onto the effective date of temporary
19 rates, and have you provide Staff's basis for agreeing
20 to that date.

21 A. (Naylor) As Ms. Hartley had indicated earlier, that is
22 the date that all of Pennichuck Water Works' customers
23 were notified of the rate filing. And, that has
24 certainly become practice in recent years with respect

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1 to the establishment of an effective date for temporary
2 rates.

3 Q. With respect to the reconciliation or recoupment that's
4 cited on Page 3 of the Agreement, can you please
5 describe, from Staff's perspective, when that
6 recoupment or reconciliation happens, what's the
7 process?

8 A. (Naylor) Well, the Company would, upon receiving an
9 order with respect to final rates, permanent rates, the
10 Company would go through a process of comparing the
11 revenues that it received during the period temporary
12 rates were in effect, with the revenues that it would
13 have received if permanent rates were in effect for
14 that same period, calculate the difference. And,
15 either refund dollars to customers or recoup dollars
16 from customers over a reasonable period following the
17 conclusion of the case.

18 Q. And, would the refund or recoupment require additional
19 Commission approval?

20 A. (Naylor) Yes, it would.

21 Q. And, with respect to rate design, the Company and Staff
22 have agreed to not change the rate design. But, if
23 that -- if the rate design is changed for permanent
24 rates, will that be a problem in calculating the either

[WITNESS PANEL: Hartley~Ware~Naylor]

1 recoupment or refund?

2 A. (Naylor) No, it should not be a problem. Depending on
3 the Commission's order, and what the Commission says in
4 that order, assuming that it adopts a different rate
5 design from that which has been in effect until this
6 case, the temporary rate reconciliation would be done
7 under the rate design ultimately approved by the
8 Commission.

9 Q. And, the last question I have concerns the rates that
10 are attached to the Agreement in the form of the tariff
11 pages. Is Staff's position that these rates will be --
12 are just and reasonable?

13 A. (Naylor) Yes, it is.

14 MS. THUNBERG: It appears that Staff and
15 the Company are done with their direct and friendly cross.

16 CHAIRMAN GETZ: Thank you. Mr.
17 Alexander, any questions for the witnesses?

18 MR. ALEXANDER: No questions. Thank
19 you.

20 CHAIRMAN GETZ: Thank you.
21 Ms. Hollenberg.

22 MS. HOLLENBERG: Thank you. Good
23 afternoon.

24 WITNESS HARTLEY: Good afternoon.

{DW 10-091} [RE: Temporary Rates] {09-15-10}

1 MS. HOLLENBERG: I just have a few
2 questions.

3 **CROSS-EXAMINATION**

4 BY MS. HOLLENBERG:

5 Q. Ms. Hartley, would it be correct to say that the
6 Company included certain pro forma adjustments to
7 revenues in its permanent rate filing?

8 A. (Hartley) That's correct.

9 Q. And, they're approximately a million -- \$1.15 million,
10 would you agree with that?

11 A. (Hartley) That's correct.

12 Q. And, would you also agree that those adjustments relate
13 to the, in part, relate to the increase from the last
14 rate case, DW 08-073?

15 A. (Hartley) Correct.

16 Q. And, also, in part, related to the change to the
17 service fees that Pennichuck implemented across all its
18 affiliates?

19 A. (Hartley) That's correct.

20 Q. Thank you. And, would you agree that those revenue
21 adjustments are not included in the calculation of the
22 temporary rate proposed today?

23 A. (Hartley) No, they're not. The temporary rates is
24 based on the test year.

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1 Q. Okay. Thank you. Ms. Hartley, are there any eminent
2 domain costs included in the temporary rate proposed
3 today?

4 A. (Hartley) No.

5 Q. Thank you. Mr. Ware -- I'm sorry, Mr. Naylor, if I
6 could just ask you a couple of questions. You
7 testified earlier today, in the temporary rate hearing
8 in the PAC case, DW 09-090 [10-090?], that there was a
9 downside to the temporary recoupment that was included
10 and stricken from the -- subsequently stricken from the
11 Settlement Agreement. Do you recall that?

12 A. (Naylor) Yes, I do.

13 Q. And, would it be fair to characterize that downside as
14 being the likelihood that the rate increase would
15 actually be greater than 10.8 percent for the first
16 five months that those temporary rates were in effect,
17 is that correct?

18 A. (Naylor) That is correct.

19 Q. And, it's possible, would you agree, that, if the
20 permanent rates were not established by the end of
21 those five months, that the rates would go down at that
22 point to 10.8 percent?

23 A. (Naylor) Yes, that's correct. To a level 10.8 percent
24 above the rates that are currently in effect.

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[WITNESS PANEL: Hartley~Ware~Naylor]

1 Q. And, then, it is further possible then that the rates,
2 once the permanent rates, once they're approved, could
3 go up again, if the Commission approved a higher
4 permanent rate that was higher than 10.8 percent, is
5 that correct?

6 A. (Naylor) That is correct.

7 Q. Okay. Thank you. And, I direct this to any of the
8 witnesses. Do you know if any of the tariff pages
9 attached to the Settlement Agreement include the
10 temporary rate recoupment that was stricken from the
11 Settlement Agreement?

12 A. (Hartley) No, it does not include, it just shows what
13 the rates would be, once temporary rates are awarded.

14 Q. Thank you. I just wanted to clarify that. Thank you.
15 Ms. Hartley, is it true that the Company is not seeking
16 Commission approval of any recoupment process today?

17 A. (Hartley) Yes, that's true.

18 Q. Okay. Thank you. And, Mr. Naylor, is that -- would
19 you answer that question the same way?

20 A. (Naylor) Yes, I would.

21 Q. Thank you. And, Mr. Naylor, you did touch upon the
22 impact of a possible change in rate design for purposes
23 of the permanent rates, and how that intersects with
24 recoupment of the difference between temporary and

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[WITNESS PANEL: Hartley~Ware~Naylor]

1 permanent rates in your direct. Is it possible, would
2 you agree, that the rate design would not be
3 implemented to recover the recoupment?

4 A. (Naylor) Well, it's certainly possible. It's subject
5 to whatever the Commission ultimately decides.

6 Q. Thank you.

7 A. (Naylor) Whether the Staff or any other party makes a
8 recommendation, it's ultimately the Commission's call
9 to decide how that should be done.

10 Q. Thank you. Thank you. You would agree, just to
11 clarify that, it's an issue that's yet to be
12 determined, and an issue that's not being decided
13 today?

14 A. (Naylor) That is correct.

15 MS. HOLLENBERG: Okay. Thank you. One
16 moment please. Okay. No further questions.

17 CHAIRMAN GETZ: Commissioner Below.

18 CMSR. BELOW: Thank you.

19 BY CMSR. BELOW:

20 Q. Ms. Hartley, on the last page of Exhibit 2, the
21 Settlement Agreement, is the non-metered rate schedule
22 proposed.

23 A. (Hartley) Uh-huh.

24 Q. Approximately how many customers at any given time or

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[WITNESS PANEL: Hartley~Ware~Naylor]

1 presently might be on a non-metered rate, which I think
2 you described as a "temporary" transitional rate till
3 meters get installed?

4 A. (Hartley) Currently, in Pennichuck Water Works, I am
5 aware of none right now. This, usually during periods
6 of growth, and we're setting meters or we have acquired
7 a system, and we need to set new meters, there's a
8 period of time when we have to charge a flat rate. But
9 I don't -- I don't know of any right now. And, I'll
10 let Don address it, because he would know better about
11 it.

12 A. (Ware) That fee was implemented solely in the event of
13 an acquisition of a non-meter area. And, the
14 difficulty becomes often getting into people's homes to
15 set meters. And, with no incentive, no rate, people
16 tend to be very slow letting you into their house.
17 And, so, a number of years ago, this was the solution.
18 There are currently, and I'm very confident, there's no
19 unmetered customers in Pennichuck Water Works.

20 Q. Okay. Thank you. So, the average single family
21 residential usage is based on all of your whole
22 residential class, which typically doesn't include any
23 unmetered customers?

24 A. (Hartley) That's correct.

{DW 10-091} [RE: Temporary Rates] {09-15-10}

[WITNESS PANEL: Hartley~Ware~Naylor]

1 CMSR. BELOW: Okay. That's all. Thank
2 you.

3 CHAIRMAN GETZ: Commissioner Ignatius.

4 CMSR. IGNATIUS: Thank you.

5 BY CMSR. IGNATIUS:

6 Q. Mr. Naylor, while we're looking at that final page, the
7 "General Service - non-metered" sheet, the last one in
8 Exhibit 2, this is a question I want to ask you really
9 to set up for the permanent rate proceeding, ask you to
10 take a look at. When you see changes in the volumetric
11 amount of usage by customers, do you -- does that have
12 an impact on how you design rates and how you
13 anticipate the revenue requirement being met?

14 A. (Naylor) Well, I think an issue like this one
15 highlights the importance of a test year, and using
16 consistent methodology to evaluate a test year and to
17 set rates going forward based on a reasonable test
18 year. So, really, what this -- what this tells me is
19 that, for various reasons, consumption, at least from
20 the last time rates were set, which I believe would
21 have been based on a 2007 test year, and this is a 2009
22 test year, so, the Company has experienced a fairly
23 significant decline in average usage by residential
24 customers. It will be an issue to discuss in reviewing

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1 the permanent filing.

2 As the Commission knows, we have a fair
3 amount of flexibility in reviewing filings and making
4 recommendations for setting future rates. There may be
5 other things we need to look at, maybe other trends we
6 need to look at. My understanding, with this company,
7 as a number of other utilities, not just in water, but
8 in the other industries, there has been very little
9 growth at all in new customers, no new meters being
10 set. The economy is the prime reason for that. So,
11 there's a number of things to look at. But it tells me
12 -- it tells me a number of things that are going on,
13 and opens up areas that we should look at in reviewing
14 the permanent rate.

15 Q. Thank you. One other clarification for the temporary
16 rate issue is, in looking at Schedule 9, and I don't
17 know, Mr. Ware, Ms. Hartley, whoever can better explain
18 this, this is the first -- the first schedule attached
19 to the Settlement Agreement. There are three
20 contracts, two of them, Milford and Hudson, are broken
21 out into different categories, "Contract Charges" and
22 "Volumetric Charges". And, in each case, they both
23 have increases in the Volumetric Charge, but none in
24 the Contract Charge. Anheuser-Busch is listed as

[WITNESS PANEL: Hartley~Ware~Naylor]

1 simply "Contract" and "increase". Can you give a
2 little more explanation on why that appears differently
3 on this chart and how their contracts may be different?

4 A. (Ware) Okay. We'll have to kind of handle them on a
5 contract-by-contract basis. All the contracts
6 typically refer to a base fee, because these are
7 typically take-or-pay contracts and then a Volumetric
8 Charge. And, for instance, in the case of Hudson, it
9 says, when that rate was established, I think in 2005,
10 the rate of \$32,800 per year was established. And,
11 then, the Volumetric rate was established at the time,
12 and the contract that was approved indicated that the
13 Volumetric rate would change by the same amount as the
14 rest of the -- the typical increase to the
15 General-Metered class. There is no -- there is a
16 vehicle relative to the fixed charge that's tied to
17 some capital work in that particular contract. So, if
18 certain capital work happened, then the fixed charge
19 could go up from the \$32,800. But, otherwise, absent
20 any work in a defined area, there would be no change in
21 the base.

22 Very similar with Milford. Milford's
23 actually has no opener on the base amount of 81,000, in
24 other words, that stays in effect during the duration

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[WITNESS PANEL: Hartley~Ware~Naylor]

1 of I believe what's a 20 year contract. The Volumetric
2 rate changes each time we have a rate case by the same
3 amount as the General-Metered.

4 In the Anheuser-Busch contract,
5 Volumetric changes by the same amount, but the amount
6 of -- that they're paying is subject to cost of service
7 -- specific cost of service study relative to
8 Anheuser-Busch. And, so, again, if there's a specific
9 cost of service study that says the amount that we're
10 collecting, either in a fixed or Volumetric Charge,
11 should be different, because conditions have changed
12 since the contract was initiated, there's a potential
13 reopener in that contract.

14 But, for purposes of temporary rates,
15 we're looking at, you know, again, what was there at
16 the time, without reflection of the cost of service
17 study. And, so, you look at the existing contracts in
18 the context of the year. And, again, that would mean
19 no change to any of the contract rates in the fixed
20 area, but, in the volumetric area, there would be an
21 increase.

22 Q. So, for Anheuser-Busch, there is also a fixed base
23 amount that is not being increased today, it's not part
24 of the proposal, it just doesn't appear on this sheet?

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[WITNESS PANEL: Hartley~Ware~Naylor]

1 A. (Ware) Well, actually, they are -- they have a
2 six-inch, their fixed charge currently is tied to a
3 six-inch meter charge. And, so, all the fixed charges,
4 from 5/8th through six-inch meters are proposed to go
5 up 10.8 percent. And, so, that meter charge would go
6 up from whatever it is for a six-inch meter per month
7 by 10.8 percent for Anheuser-Busch.

8 CMSR. IGNATIUS: All right. Thank you.

9 CMSR. BELOW: A follow-up on one of
10 Commissioner Ignatius's questions.

11 BY CMSR. BELOW:

12 Q. Mr. Naylor, in looking at the factors regarding usage
13 by residential, perhaps some commercial customers, for
14 purposes of setting rates going forward, is one of the
15 factors that you look at the impacts of weather on the
16 test year? For instance, if there's a wet, cool summer
17 versus a hot, dry summer, would that impact --
18 potentially impact average usage for watering lawns and
19 gardens and keeping pools filled, for instance?

20 A. (Naylor) Yes. Definitely.

21 Q. So, weather normalization might be something you would
22 look at, whether that might be called for or not?

23 A. (Naylor) We do look at it. We are, I think,
24 particularly sensitive to that issue now, given a

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1 couple different things. The economy is one sort of
2 overlaid over all of this. And, the fact that this
3 company, in particular, and many others have
4 experienced no growth. And, we see this rather
5 dramatic decline in average consumption. Really, we
6 want to, for a lot of good reasons, stick to a
7 consistent methodology based on a test year.

8 But the overriding purpose is to set
9 correct rates going forward into the future. So, we do
10 need to look at those factors, and explore them and
11 understand them. And, if there's some things, after
12 that review, that we should take into account, then we
13 will do so, and make it a recommendation.

14 CMSR. BELOW: Okay. Thank you.

15 CHAIRMAN GETZ: Any redirect,
16 Ms. Thunberg or Ms. Knowlton?

17 MS. KNOWLTON: No thank you.

18 MS. THUNBERG: None. Thank you.

19 CHAIRMAN GETZ: If there's nothing
20 further for these witnesses, then you're excused. Thank
21 you, everyone.

22 Is there any objection to striking
23 identifications and admitting the exhibits into evidence?

24 MS. THUNBERG: No.

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1 CHAIRMAN GETZ: Hearing no objection,
2 they will be admitted into evidence. Is there anything
3 else we need to address before opportunity for closings?

4 (No verbal response)

5 CHAIRMAN GETZ: Then, we will begin with
6 Mr. Alexander.

7 MR. ALEXANDER: Anheuser-Busch has no
8 position on the temporary rate issue.

9 CHAIRMAN GETZ: Thank you.
10 Ms. Hollenberg.

11 MS. HOLLENBERG: Thank you. The Office
12 of Consumer Advocate has no position on the amount of the
13 temporary rate increase proposed by the Settlement
14 Agreement. We do -- we would like to recognize and thank
15 the Staff and the Company for deferring the issues of rate
16 design until the permanent rate phase of this proceeding.
17 And, we are -- we agree with the language being stricken
18 from Paragraph III -- Page 3, I'm sorry, of the Settlement
19 Agreement, as proposed today by the Staff and the Company.
20 Thank you.

21 CHAIRMAN GETZ: Thank you.
22 Ms. Thunberg.

23 MS. THUNBERG: Staff respectfully
24 requests the Commission approve the Settlement Agreement

1 and the terms contained therein. Staff believes that the
2 rate proposed in there and the revenue requirement will
3 bring the Company closer to its last authorized rate of
4 return. Also would like to note that these temporary
5 rates are fully reconcilable when permanent rates are
6 determined. Thank you for your consideration.

7 CHAIRMAN GETZ: Thank you.

8 Ms. Knowlton.

9 MS. KNOWLTON: Thank you. Based on the
10 testimony that was prefiled, as well as the oral testimony
11 at the hearing today, there is a sufficient record to
12 support a temporary rate increase. The Company has
13 testified to the reasons for its under earning, and Mr.
14 Naylor confirmed that the Staff reviewed the books and
15 records on file with the Commission and was able to verify
16 that, in fact, the Company is under earning. I believe
17 that the Settlement Agreement that's before the Commission
18 today is reasonable and in the public interest, and would
19 ask that the Commission grant it.

20 I would conclude by indicating that the
21 Company looks forward to working with all of the parties
22 and the Staff through the rest of the course of this
23 docket, through the audit of the Company's records, as
24 well as continuing to work with parties on discovery and

1 other issues. Thank you.

2 CHAIRMAN GETZ: All right. With that,
3 then we will close this hearing and take the matter under
4 advisement. Thank you, everyone.

5 (Whereupon the hearing ended at 3:11
6 p.m.)

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