STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 6, 2011 - *10:05 a.m.*
Concord, New Hampshire

RE: **DW 10-217**
TIOGA RIVER WATER COMPANY:
Notice of Intent to File Rate Schedules.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: **Reptg. Tioga River Water Company:**
Stephen P. St. Cyr

Reptg. Tioga Drive Homeowners:
George Woodruff
Robert Carchia
Carolyn Bancroft
John Bancroft

Reptg. PUC Staff:
Alexander Speidel, Esq.
Mark Naylor, Director/Gas & Water Division
James Lenihan, Gas & Water Division
Douglas Brogan, Gas & Water Division
Jayson Laflamme, Gas & Water Division

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

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P R O C E E D I N G

CHAIRMAN GETZ: Okay. Good morning, everyone. We'll open the hearing in Docket DW 10-217. On August 16, 2010, Tioga Water Company filed a notice of intent to increase rates to its customers in its two divisions, in the Town of Belmont and in the Gilford Village Water District. And, an order was issued on November 15 suspending the proposed tariffs and scheduling a prehearing conference. That prehearing conference was held on December 14, and a procedural schedule was approved on December 28. And, also, at that time, it was noted that the Tioga Drive Homeowners' Motion to Intervene was granted.

Subsequently, the procedural schedule was suspended in order to -- pending the Tioga Water Company's compliance with the Audit Division's requirements related to recordkeeping. And, after that was accomplished, the hearings were rescheduled. And, we have today a Settlement Agreement to consider that was filed on September 22nd.

And, I guess, Mr. Speidel, do I understand there will be a panel presenting the Settlement today?

MR. SPEIDEL: That is correct. Yes. I

will be calling Mr. Laflamme and also Mr. Brogan to the stand, and I believe Mr. St. Cyr will also be giving testimony today.

CHAIRMAN GETZ: Okay. Well, let's, at the beginning, let's take appearances from the Company, who will be presenting on behalf of the Company.

MR. ST. CYR: Yes. Good morning. My name is Stephen P. St. Cyr, and with me is Norm Harris, the Third, representing the Tioga River Water Company.

CHAIRMAN GETZ: Good morning. And, who is going to be representing the Tioga Drive Homeowners?

MR. WOODRUFF: Homeowners? My name is George Woodruff.

CHAIRMAN GETZ: Okay. Good morning.

MR. WOODRUFF: Good morning.

CHAIRMAN GETZ: And, if --

MR. SPEIDEL: Yes. Alexander Speidel, for Staff, and we also have Mr. Brogan and Mr. Laflamme for Staff.

CHAIRMAN GETZ: Okay. Since the Company and Staff is going to be putting together a panel to present the Settlement Agreement, Mr. Woodruff, if you would like to make an opening statement, you can have that opportunity. Of course, everyone will get an opportunity for closing arguments.

MR. WOODRUFF: Thank you.

CHAIRMAN GETZ: Would you like to make an opening statement before we hear from the panel?

MR. WOODRUFF: That would be great.

CHAIRMAN GETZ: Okay.

MR. WOODRUFF: Starting out, we are opposing the increase that we feel is extremely too high. And, if I may, I just want to hand these over to the two of you to help explain why I believe. If you notice on the very front page, --

CHAIRMAN GETZ: Well, first of all, --

MR. WOODRUFF: Yes, I'm sorry.

CHAIRMAN GETZ: Have copies been provided to the Company and Staff?

MR. WOODRUFF: No. This is actually their reports to us. I just took their reports and made copies of it. So, they already should have them.

CHAIRMAN GETZ: Okay.

MR. WOODRUFF: The very first page is the New Hampshire PUC water company annual rates, dated for August of 2011. As you notice on it, there we go, that it's from our New Hampshire PUC. And, it states right here that the Tioga River Water Company is right now the eighth highest rate in the State of New Hampshire of all 21 public -- private water companies. And, the Tioga River Water Company's Gilford Village Division is the slowest rate. Now, this is as of August. This is very recent. And, one of the biggest problems with this is that right now that's showing $621 for an annual rate. But, if you look at the report in which they give us the -- the consumption charge is only $313, on the next page. And, what it boils down to is they're giving you two reports showing two different rates. And, if the annual rate of $621 is correct, then my percentage increase should not go up as high as it is to come up with the dollar amount that they need to survive. That's one of my -- one of our arguments.

Another one is the annual report for the Tioga River Water Company, which is on the third page. This, again, is public knowledge, it's also right out from the Company themselves. And, in looking at this, you'll see that the Tioga River Water Company, showing both residential divisions, that this is done in thousands of gallons, not done by cubic feet. But it still represents showing us that Tioga River Division used 981,000 gallons of water, but the Gilford Valley used 2,000,572 gallons of water. That's 2.6 percent more.

Now, where I'm going with this is, if you look all the way to the right, you'll see that it shows a revenue per thousand gallons sold. We, at Tioga River Water -- Tioga, we're getting charged 10.69 per thousand gallons; Gilford's only getting charged $5.00 per thousand gallons. Looking at that, and I'm saying, you know, why are we getting charged 2.09 percent more -- or, that's actually 200 percent more. So, that's another reason why I'm questioning why are we getting an increase of 97 percent, where, I'm sorry, but, when I drink water and they drink water, it's the same item. We're not buying a different item. It's the same quality. It's the same, etcetera.

One of the things is I was looking to see if someone from Gilford Valley was here to represent them. And, I don't see anybody. And, so, I was questioning the concept here also was that maybe because they're showing right now an average of 35 customers, still on that same page. The thing is, it's not so much 35 customers as it is 35 meters that's being read. We have 22 meters, because we have a meter on each house. Thirty-five meters, but they're using maybe on complexes, where maybe there is more than like maybe ten families per complex. That's why they're using 2.6 percent more water

-- well, actually, 200 percent more water.

So, what it boils down to is, now they're telling me that this isn't -- if that's the case, then we're talking about landlords, we're talking -- and tenants. Well, the landlords are just going to take the increase and, guess what, they're just going to feed it to the tenants as an increase in their rent. I think that's why I don't see anybody here from Gilford Valley to represent themselves.

We, as individual families, we are now stuck with a situation where we don't know where else to go except fight the concept, we can't afford an increase per individual family unit. Gilford Valley, they're a tenant that's just dividing the price up among a number of families per complex, we'll say.

Another thing of which I was questioning, which I'm quite sure someone can explain to me, that right now I believe Mr. Harris owns the Tioga River Water Company and the Gilford Well Company, am I correct with that?

CHAIRMAN GETZ: Well, this isn't a time for asking questions.

MR. WOODRUFF: All right. Then, --

CHAIRMAN GETZ: So, you'll have an

opportunity --

MR. WOODRUFF: All right. Okay.

CHAIRMAN GETZ: -- to ask questions. But let's get this under control right from the beginning. Mr. Patnaude can only record one person speaking at a time.

MR. WOODRUFF: Right. Okay. I'm sorry. So, what I'm looking at is, in our reports, it shows that there's a loan from Gilford Wells given to Tioga River Water Company, at 4.58 percent. Well, if the gentleman owns both companies, then what he's doing is taking a loan from his own company, taking a loan from himself, and he's charging an interest of 4.58 percent to himself. Which means I'm being --- my rate increase is due to the fact that he's getting -- he's charging interest to himself. I'm paying for an increase, an interest on a loan that I don't know what, you know, he's just paying to himself, being that he owns both companies. So, why am I paying an increase in my rates because he's charging an interest to a loan to himself?

That was -- and, that is why we are opposing this increase.

CHAIRMAN GETZ: Okay. Thank you. Is there anything before we hear from the panel?

MR. SPEIDEL: Yes, Mr. Chairman. If I could just append the appearances to include Jim Lenihan and Mark Naylor of Staff. And, also, I do have photostats of the original Staff settlement filing from September the 22nd that I would like to enter into the record as an exhibit.

CHAIRMAN GETZ: Okay. This is the first exhibit. So, do you want to mark that for identification as "Exhibit Number 1"?

MR. SPEIDEL: Yes, please.

(The document, as described, was herewith marked as **Exhibit 1** for identification.)

CHAIRMAN GETZ: Are we also going to enter the original filing?

MR. SPEIDEL: Yes. This is essentially just a duplicate of the original filing from September the 22nd. And, the original filing would be "Exhibit 2", correct.

CHAIRMAN GETZ: It's so marked.

(The document, as described, was herewith marked as **Exhibit 2** for identification.)

MR. SPEIDEL: Thank you very much, Mr.

Chairman. I think we'd be ready to swear in our witnesses, if at all possible.

CMSR. IGNATIUS: Mr. Speidel, as people are getting settled, let me just let you know we have extra copies of the Settlement Agreement, because we already had ours.

MR. SPEIDEL: Okay.

CMSR. IGNATIUS: So, if there are some people here who do not have a copy, those are available.

(Whereupon ***Stephen P. St. Cyr***, ***Jayson P. Laflamme***, and ***Douglas W. Brogan*** were duly sworn and cautioned by the Court Reporter.)

STEPHEN P. ST. CYR, SWORN

JAYSON P. LAFLAMME, SWORN

DOUGLAS W. BROGAN, SWORN

DIRECT EXAMINATION

BY MR. SPEIDEL:

Q. Yes. Mr. Laflamme, would you please state your full name for the record.

A. (Laflamme) My name is Jayson Laflamme.

Q. What is your position with the Commission?

A. (Laflamme) I'm a Utility Analyst in the Gas and Water Division of the New Hampshire Public Utilities

Commission.

Q. Could us please describe your responsibilities.

A. (Laflamme) Yes. My area of expertise is in the -- is in accounting and finance. I review various filings that are made by water and sewer utilities to the New Hampshire PUC, mostly with regard to the financial aspects of these filings, including rate filings, as is the subject today. I review the company's books and records, issue data requests, review the utility's annual reports for the purpose of making recommendations to the Commission regarding rate increases for water and sewer utilities.

Q. Thank you. Mr. Brogan, could you please state your full name for the record.

A. (Brogan) Douglas Brogan.

Q. What is your position with the Commission?

A. (Brogan) I'm the Utility Engineer for water, water and sewer.

Q. Can you please describe your responsibilities?

A. (Brogan) Basically, I look at system improvements, kind of the physical side of things, in rate cases and other cases.

Q. And, your area of professional expertise is engineering. Is your testimony today going to be

within that area of professional expertise?
A. (Brogan) I would say so, yes.
Q. Thank you. Mr. St. Cyr, could you please state your full name for the record.
A. (St. Cyr) Stephen P. St. Cyr.
Q. By whom are you employed, Mr. St. Cyr?
A. (St. Cyr) I'm employed by St. Cyr & Associates.
Q. What are your responsibilities?
A. (St. Cyr) My responsibilities, as it pertains to this particular case, is essentially preparation of the initial filing, assisting the Company and responding to data requests, working with the Company in developing the Settlement Agreement, and other rate and regulatory matters.
Q. Thank you. Are you appearing on behalf of the Company today, Mr. St. Cyr?
A. (St. Cyr) Yes, I am.
Q. Thank you. Mr. St. Cyr, I'll ask you now to look at the document titled "Settlement Agreement" that's been marked for identification today as "Exhibit 1". Do you have that before you, Mr. St. Cyr?
A. (St. Cyr) Yes, I do.
Q. Thank you. Mr. St. Cyr, did you participate in the development of the Settlement Agreement on behalf of

the Company?

A. (St. Cyr) Yes, I did.

Q. Do you have any changes or corrections to make to that document?

A. (St. Cyr) No, I do not.

Q. Thank you. Now, Mr. St. Cyr, I'll ask you to look at Section III.A.1, "Revenue Requirement", including Segment (a), "Permanent Increase", and Segment (b), "Step Increase", as related to the Tioga Division. That begins on Page 3. Would you please describe what the Company has agreed to with regard to those subjects?

A. (St. Cyr) Yes. The "Permanent" -- Section (a), the "Permanent Increase", represents the increase in permanent rates over the currently approved, authorized rates that the Company charges. The particular increase that we're agreeing to is $2,332. It represents approximately a 22 percent increase over the current authorized level of revenues.

Q. Thank you. Now, Mr. St. Cyr, would you please take a look at Section III.B.1, titled "Rate Design and Effect on Customer Rates", as related to the Tioga Division, on Page 8. Would you please describe what the Company has agreed to with regard to this subject.

A. (St. Cyr) I guess you're a little bit ahead of me. Did you want me to explain the step increase as well in Section --

Q. Well, yes. That was part of the original question. Would you like to go back to that question?

A. (St. Cyr) I'm sorry. Yes, please. Let me --

Q. Sure.

A. (St. Cyr) Let me further explain, and then we can move onto the rate design, if that's okay?

Q. Very good. That's fine.

CHAIRMAN GETZ: Excuse me. While you're at it, could you explain the timing, if there's any difference, or if there's any rationale for any different timing between the permanent increase and the step increase?

WITNESS ST. CYR: Yes. I can do that as well.

BY THE WITNESS:

A. (St. Cyr) Going back to the permanent increase, I just want to reference a couple of schedules at the same time that I talk about the amount of the permanent increase. If you look at Attachment A, Schedule 1, this summarizes what the permanent increase would be. And, the key numbers on that particular schedule is the

"Average Rate Base". The average rate base being "$27,058". This represents the plant in service that's currently providing service to customers. To that, we apply a 6 percent rate of return. The 6 percent is the rate on debt that -- long-term debt that the Company owes and is specific to the Tioga Division. That produces an operating income requirement of $1,622. When we add the $1,622 to the adjusted test year expenses, we have a revenue requirement of 12,822. When that revenue requirement of 12,822 is compared to the adjusted test year revenues, it produces an increase in the revenue requirement of $2,332. And, that $2,332 represents an approximately 22 percent increase over the present level of revenues.

The second component of the rate increase pertains to the step increase. And, overall, that revenue requirement is $7,947, and that is shown on Attachment A, Schedule 4. And, on Attachment A, Schedule 4, this summarizes the components of the step increase. And, again, the key numbers on this particular schedule is the net 2010 plant in rate base, the 70,166. This represents the total construction cost of 134 -- approximately $134,000, less accumulated depreciation, less contribution in aid of construction.

The contribution in aid of construction is the 50 percent forgiveness provided by the State on the State Revolving Fund loan. So, while the Company has expended 134,000 as part of the cost of the improvements that it made, the loan on that, 50 percent of that loan amount is forgiven, and it's reflected as "contribution in aid of construction".

A couple other key numbers on that particular schedule. The annual cost of debt of 3.21 percent, this is substantially the State Resolving Fund interest rate. We apply that interest rate to the net of the 2010 plant in service. It produces an increase in the operating income requirement of 2,226. To that, we add the expenses related to it, the depreciation offset by the amortization of CIAC, plus the increase in property taxes, and it produces a step increase in revenue requirement of 7,947. And, when you compare that to the current authorized level of revenues, it represents a 75.75 percent increase in rates.

Overall, when you sum the two components together, you're looking at an approximately 97 to 98 percent increase in rates.

BY MR. SPEIDEL:

Q. Is that all, Mr. St. Cyr, about the revenue requirement and step increase?

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

Q. Would you be able to address Chairman Getz's query about timing?

A. (St. Cyr) Yes. The timing is cited in the Settlement Agreement, in Section C. The effective date of the increases are on a service date -- on a service rendered basis on or after October 1, 2011. And, the permanent increase and the step increase would both go in effect at the same time.

Q. Okay. Very good. I guess we can, Mr. St. Cyr, take a look at Section III.B.1 again, "Rate Design and Effect on Customer Rates", Page 8 for Tioga. Could you give a summary please and description of what the Company has agreed to with regard to this subject.

A. (St. Cyr) Yes. The Company and the Staff have agreed to a fixed quarterly charge of $60 per quarter, 60 times the four quarters would be an annual amount of $240. The consumption charge that the Company and Staff has agreed to is 0.1181 per cubic feet of water used. The calculation of those components are actually shown on Attachment A, Schedule 5. And, as I look at Schedule 5, you can see the annual revenue derived from the fixed charge, plus the annual revenue derived from

the consumption charge. The sum of the two components represents the total revenue requirement. And, there's also an analysis of the proposed rate impact comparing the current rates to the proposed rates.
Q. Thank you, Mr. St. Cyr. Could we please turn to Page 9, specifically Section III.D.1, titled "Loans from Affiliate and Shareholder".
A. (St. Cyr) Yes.
Q. As related to the Tioga Division.
A. (St. Cyr) Yes.
Q. Could you please describe what the Company has agreed to with regard to these matters.
A. (St. Cyr) There was, in the process of constructing the project, the improvements at Tioga, the Company substantially used State Revolving Funds for the majority of the project. But there was some additional expenditures that were advanced to the Company by Gilford Well, the company that paid for those engineering costs, but, as a result, has a loan to its affiliate, Gilford Well. And, the Company has agreed to pay that amount, the 3,580, over 20 years, at a rate of 4.58 percent. The 4.58 percent is the prime rate plus 1.33 percent. And, that particular determination is consistent throughout all the Company's loans. It's

prime plus 1.33 percent.

Q. Thank you. This question would be for Mr. Laflamme. With respect to Exhibit 1, the Settlement Agreement, do you have that document before you as well?

A. (LaFlamme) Yes, I do.

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

A. (LaFlamme) Yes.

Q. Do you have any changes or corrections to make to that document?

A. (LaFlamme) No.

Q. Thank you. Now, Mr. Laflamme, could you please provide a general overview of the procedural history that led to Staff reaching agreement with the Company?

A. (LaFlamme) Yes. Just filling in the gaps of what Chairman Getz provided at the beginning, I think there's probably a question of there was a halt to the original procedural schedule, and then a restart to that schedule. And, if I may, if I could go into an explanation with regards to that. As was indicated at the beginning of the hearing, a procedural -- an original procedural schedule was approved at the end of December of 2010. And, the parties were going through that procedural schedule. And, I believe that one round of data requests was completed. And, also, during that period of time, an audit took place by the Commission Staff.

The audit report, the final report of that audit was submitted on April 4th of 2011. In the report, there were some issues regarding the recordkeeping by the Company of its plant assets. This had been an ongoing issue for a number of years, a number of audits had pointed to this issue of certain deficiencies in the Company's plant asset recordkeeping.

Given that plant assets and rate base is an integral part of determining permanent rates, Staff thought it would be best to suspend that procedural schedule, in order for the Company to get its plant records in compliance with PUC standards.

Therefore, the Staff submitted a letter, that was also from Staff and on behalf of the parties, submitted a letter to the Commission on April 19th asking for a suspension of the procedural schedule, in order to allow the Company time to get its plant records in order.

The Company did so. And, the Commission Staff was sent out again, at the beginning of the summer, to review the steps that the Company had made to improve its recordkeeping. As a result of that, the Commission Audit Staff issued another report on June 27th, indicating that the Company's records were in compliance with PUC standards.

And, then, based on that, Staff sent another letter to the Commission on July 7th, stating that the Company's plant records were now in compliance with the PUC, and also laid out a procedural schedule to resume the rate proceeding. That procedural schedule was approved by the Commission on July 11th. A further round of discovery took place after that. And, on August 18th, there was a technical session that was attended by all the parties. And, also, at that technical session, settlement discussions were initiated between the Company and Staff, that culminated in the agreement that is being presented today, which was filed on September 22nd.

Q. Thank you.

CHAIRMAN GETZ: Excuse me, Mr. Speidel, let me ask this question. The audit reports from April 4 and June 27, were they made available -- well, I assume to the Company, of course, but to the Tioga Drive homeowners?

MR. SPEIDEL: As I recall, and the homeowners can correct me if I'm wrong, I had made mention of the audit report within the Staff letter that I had tendered on April the 19th, and also prior to that on April the 5th. But I had not forwarded, I'm saying this in an abundance of caution that I had not forwarded the report itself to the homeowners. But it was summarized within the two Staff letters that were sent to the Executive Director on this docket.

CHAIRMAN GETZ: Well, we could probably take official notice of the audit reports, but let's reserve Exhibits 3 and 4, respectively, for the April 4 Audit Report and the June 27 Audit Report.

(Exhibit 3 and Exhibit 4 reserved.)

CHAIRMAN GETZ: And, then, to the extent that they haven't been made available, Mr. Speidel, if you could make sure they're made available to everyone.

MR. SPEIDEL: Yes. And, I'll double check to make sure that I hadn't sent it. I very well might have sent the earlier report. But it's a little bit of a gray area, and I'll double check and make sure that they're distributed if they haven't been sent directly.

CHAIRMAN GETZ: Thank you.

BY MR. SPEIDEL:

Q. Well, thank you very much, Mr. Laflamme, for that summary. Could we please turn now to Section III.A.2, and that would be on Page 5 onward. This would be the revenue requirement, including Segment (a), the "Permanent Increase", and Segment (b), the "Step Increase", as related to the GVWD, or Gilford Division.

A. (Laflamme) Okay.

Q. Could you please describe how Staff came to an agreement with regard to those subjects?

A. (Laflamme) Yes. The revenue requirement agreed upon between Staff and the Company for the Gilford Village Division amounts to $26,786e. This amounts to a 110.55 percent increase over the operating revenues of the Gilford Village Division during the test year ended October 31st, 2009. That increase is comprised of a permanent increase based on the Company's plant and operations as of the fiscal year ended 10/31/09. And, that amounted -- and, that's summarized on Schedule 1 of Attachment B, and results in a 65.34 percent increase, or $8,312.

The second component of the Gilford Village Division's revenue requirement is a step increase, based on certain plant additions that were placed in service during the fiscal year ended 2010. That resulted in a 42 -- 45.21 percent additional increase in the Company's revenue requirement, or

$5,751. A summary of the step increase is on Schedule 4 of Attachment B.

The specifics of each of the components, beginning with the permanent increase, which again was based on the Company's operations and plant in service as of 10/31/09. The rate base agreed upon by the Staff and the Company was $38,759. A computation of that is on Schedule 2 of Attachment B. The rate of return agreed upon by Staff and the Company for Gilford Village is 7.77 percent, computed on Schedule 1a of Attachment B. That results in an operating income requirement of $3,013. In order for the Company to realize that, the revenue requirement, the permanent revenue requirement was calculated as $21,034, which, as I indicated before, is an increase of 65.34 percent over test year revenues.

The step increase, as I indicated, is on Schedule 4. That is the result of new booster pumps and treatment system. That was placed in service during the Company's fiscal year ended 10/31/10. The cost of that equipment was $106 -- $106,758. That was essentially funded by an SRF loan that was previously considered by the Commission in Docket DW 09-117. The Commission approved that SRF loan in its Order 24,988, on July 23rd, '09. The cost of debt attached to that loan, for purposes of the step increase, is 3.188 percent, as calculated on Schedule 4c of Attachment B. And, that results in an increase in the operating income requirement of $1,666. Added to that is additional operating expenses consisting of depreciation, amortization of CIAC, and property taxes of $4,086, for a total step increase of $5,751, which essentially amounts to an additional 45.21 percent increase in the Company's revenue requirement.

Q. Thank you. Now, Mr. Laflamme, would you please look at Section III.B.2, "Rate Design and Effect on Customer Rates", beginning on Page 8, as related to the Gilford Division.

A. (Laflamme) Yes.

Q. Would you please describe how Staff came to an agreement on rate design here?

A. (Laflamme) Yes. The computation of the rate design for the Gilford Village Division is summarized on Schedule 5 of Attachment B. Essentially, the result of those calculations is a fixed charge of $36.07 per quarter, for Gilford Village customers, and a consumption charge of 4.1 cents per cubic foot consumed.

At the bottom of Schedule 5 is a

comparison of rates for the Gilford Village customers, based on an average consumption of 3,900 cubic feet per customer per year. Using that level of usage, the current rates for Gilford Village customers is $142.83 per year. Under the proposed rates, that would increase to $304.38 per year, which is 113.11 percent increase, or $161.55 on an annual basis. Broken down, on a quarterly basis, that amounts to $40.39. And, on a monthly basis, that's $13.46.

Q. Thank you. Mr. Laflamme, could you please provide additional background on how Staff came to an agreement with the Company on the matters referred to in Section III.D.2, titled "Loans from Affiliate and Shareholder", as related to the Gilford Division, starting on Page 9.

A. (Laflamme) Yes. In the Company's filing, they indicated that, during the years 2006, 2007, and 2008, they had taken out loans with their affiliate, Gilford Well, and also the Company's shareholder, Norman Harris, Jr. The Company had not -- had not filed for approval for those loans, in compliance with RSA 369. But, as part of this rate proceeding, the Company was requesting approval for those three loans that it had taken out during those three prior years.

Specifically, in 2006, the Company borrowed $12,810 from Gilford Well for the purpose of installing some pumping equipment, meters, and also operational -- other operational requirements. In 2007, it had taken out a loan with Norm Harris, Jr., in the amount of $11,928, again, for some pumping equipment and operating -- operating cash. 2008, the Company had borrowed $8,429 from Norm Harris, Jr., for the purpose of installing tanks, pumping equipment, and also further operational requirements. These three loans were incorporated in a determination of the Company's permanent rates, indicated in the Settlement Agreement. And, therefore, are an integral part of the rates that were -- the proposed revenue increase that was agreed upon between Staff and the Company.

The terms that the Staff and the Company agreed upon are similar to the terms indicated earlier by Mr. St. Cyr. Each of the notes was agreed to have a 20-year term, consisting of monthly payments of principal and interest. Interest is based upon the average prime rate in effect during the years borrowed, plus 1.33 percent. And, those rates are adjustable every five years. Specifically, for the 2006 loan, the interest rate is 9.29 percent. The 2007 loan, the interest rate is 9.38 percent. And, for the 2008 loan, the interest rate is 6.42 percent. The Company and Staff have also agreed that, within 30 days of a Commission order regarding this Settlement Agreement, that the Company will file executed copies of these three loan agreements with the Commission.

Q. Thank you. Mr. Laflamme, what is the status of the audits of the Company's books and records undertaken for this rate case?

A. (Laflamme) As I indicated earlier, two audits were performed and finalized. And, those essentially -- those audits essentially dealt with the Company's test year ended 10/31/09. Another audit is ongoing, and that is an audit of the construction costs of the plant that was put into service during fiscal year ended 10/31/2010. A draft audit report was issued in that as of yesterday. There are some issues that need to be worked out with regards to finalizing the cost of the 2010 plant. And, we expect those issues to be resolved in the near future, and a final report to be -- to be issued.

Q. Now, given the potential contingent nature of this response, I will still ask. Does the Staff have an opinion as to the Company's rate base, whether the items that are included in the revenue requirement integrated in the Settlement are generally prudent, used and useful?

A. (LaFlamme) Essentially, yes. Staff believes that the items in rate base are in rate base and are used and useful. With regards to the plant in service as of the end of the test year, 10/31/09, Staff is confident in the level of cost that's reflected in the schedules that are being presented today.

With regards to the cost of the -- of the plant associated with the step increases, again, I indicated that there is -- there are some questions that are being -- the attempt is to resolve, resolve those issues and questions. And, so, right now, there's not an assurance of the cost associated with those plant additions that went into effect in 2010.

Q. Mr. Laflamme, could you just also comment on the segment within Page 5, the second full paragraph, if you could just direct your attention to that. That's under Section III.A.b.

A. (Laflamme) Uh-huh.

Q. The segment that begins "As of the date of this agreement", could you just read that and perhaps comment on it?

A. (Laflamme) Yes. This particular section pertains specifically to the Tioga Division. There's a similar paragraph relative to the GVWD Division. And, it's simply indicating that, as of the date of when this agreement was signed, an audit had not been completed regarding the plant additions for 2010. And, also, the filed documentation of the SRF loan associated with these plant additions had not been finalized as well. And, it simply indicates that it was -- it is the expectation that both of these matters will be resolved in the near future. And, if the result is a material difference, either in the specifics of the SRF loan or the construction costs of that plant, Staff will notify the Commission of that and the resulting impact on the revenue requirements and customer rates.

CHAIRMAN GETZ: Well, let's reserve, as Exhibit -- for Exhibit 5 then this final audit that's expected with respect to the 2010 in-service plant additions.

(Exhibit 5 reserved.)

MR. SPEIDEL: Thank you.

BY MR. SPEIDEL:

Q. Mr. Brogan, could you please provide some further technical background as to the improvements that are to be integrated in the step adjustments discussed by Mr. St. Cyr and Mr. Laflamme.

A. (Brogan) Yes. It's been noted that those improvements were funded by SRF money. It was actually federal ARRA money funneled through the SRF Program. So, it was a one-time thing that the Company was able to take advantage of. And, again, that borrowing, as Mr. Laflamme indicated, was approved in a Commission -- prior Commission docket. The improvements, actually, the improvements in both divisions were fairly significant.

In the Gilford Division, they included new booster pumps and an iron and manganese treatment system and a dial-out alarm system. Basically, that Gilford system was having trouble keeping up with its water system demands and was having water quality problems as well. So, those improvements addressed some of those issues.

The Tioga Division improvements in Belmont basically amounted -- basically was the replacement of the system's pumping station. The prior station was in poor condition. There was, basically, a below-ground pit with a little wood shack on top, and it was subject to flooding and constant moisture problems, you know, associated with corrosion of its electrical components and other components, and a hazardous entry, and difficult access to get to the equipment itself, and so forth.

And, in fact, a couple of earlier Commission orders actually anticipated its -- the replacement of that station, in 1997, and again in 2002. I won't list out the order numbers. I have them, if they're needed. But, for whatever reasons, the replacement didn't happen until this current SRF funding opportunity came along.

The new station, the replacement station is a relatively modest, I guess, 12-by-12 foot wood frame structure. Construction was put out to bid and awarded to the lowest bidder. And, some cost savings was achieved by reusing the buried atmospheric storage tank. It's an above-ground walk-in station, so that there's access to all the equipment. It's above the 100-year floodplain, so that -- addressing moisture issues. It has constant pressure pumps now for better control of pressures. The old system was of more typical in the past, you know, the pumps come on in a low pressure, go off at a high pressure, and so you have a range. But this is a constant pressure output when all working.

The new station has iron and manganese treatment to address some of the water quality problems from the past; the only station had no treatment.

And, I'm jumping ahead a little bit. The new station also has an auto-dialer, to automatically notify the Company directly of any alarm situations, low level/low pressure, low level/high pressure. And that, again, is a significant improvement, I think, over the past, where there was maybe a horn or a light outside the station, and, you know, the customers might or might not hear or see the alarm, and the Company ended up responding after-the-fact to system failures. But now it can be a little more proactive, because, again, they get immediate notification directly.

So, the new station is probably, you could say, was overdue, the replacement. The rate impact is a little bit steep. But, again, it's unlikely that any better funding opportunity would have come along than is incorporated in this case. Oh, and that the auto-dialer alarm system is in compliance with Section III.F of the Settlement Agreement. It actually became operational after the Settlement Agreement, but

before today.
Q. Thank you, Mr. Brogan. Mr. Laflamme, could you please discuss the terms of the plant records agreement reached by Staff and the Company, within Section III.E of the Settlement Agreement, and that would be on -- beginning on Page 10.
A. (LaFlamme) Yes. As I indicated earlier, during the course of this proceeding there were some issues that came to light regarding the Company's plant recordkeeping. The purpose of this particular section is to attempt to ensure, on a going forward basis, that the Company's plant records are in compliance with the PUC standards going forth from this Settlement Agreement.
Basically, the Company and Staff have agreed that the Company will maintain and continually update its continuing property records and its work order system in compliance with PUC rules and regulations, beginning with the Company's plant records for the fiscal year ended October 31st, 2010. The benchmark or basis of the Company's plant going forward will be based on the respective Schedules 2c and 4a, in Attachments A and B, for the Tioga Division and the GVWD Division. Those will be -- those will be the

benchmark basis going forward.

If adjustments need to be made by the Company to its plant records, in order to conform to those particular schedules, they will be reflected in the annual report that will be filed by the Company for their fiscal year ended October 31st, 2011.

Q. Thank you. Mr. St. Cyr, does the Settlement provide for the recovery of rate case expenses?

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

Q. Could you please summarize the Settlement terms outlined in Section III.G of the Settlement Agreement, that would be on Page 11.

A. (St. Cyr) Yes. As is the Commission's standard practice, the Company has an opportunity to present its rate case expenditures following this filing -- following this hearing, and plans to do so. It will submit its proposal and the supporting documentation to the Staff for review. And, the Company anticipates that it and the Staff will be able to file a joint recommendation with the Commission.

Q. Thank you. Mr. Laflamme, could you please address the issue regarding the significant difference in rates between the Tioga and Gilford systems raised in the opening statement by the homeowners?

A. (LaFlamme) Yes. I'll attempt to. The big difference, I believe, between the -- between the rates of the -- for the Tioga Division and the rates for the Gilford Village Division are that the -- I believe that the Tioga Division only has 22 customers; whereas the Gilford Village Division has, I believe, 80 -- 88 billing units. And, I think that's a major reason why there's a difference between the Tioga rates and the Gilford Village rates. Another --

CHAIRMAN GETZ: Well, can we stop there for a second? I just want to make sure I understand. Well, of course, the annual report for the year ended October 31, 2009 says "35 customers". The order at the beginning of this case says "38 customers". So, this "88 units" goes to this issue that Mr. Hoffman raised about there are some --

WITNESS LAFLAMME: I believe the Company has 38 customers, but I believe those are divided, and the Company could correct me if I'm wrong, I believe it's within those 38 customers, there's 88 billing units within those 38 customers.

WITNESS ST. CYR: That's correct. Meaning some of those customers are multi, can be two-unit facilities, three units, and there's at least one large building of 20 some odd number of units that make up the difference between the billing units and the number of customers.

CHAIRMAN GETZ: All right.

BY THE WITNESS:

A. (LaFlamme) And, of course, you know, these are two, even though these systems are owned by the same company, Tioga River Water Company, they are distinct systems. They have their own water supplies, their own distribution systems, so on and so forth. So, you know, from a technical aspect, the needs of -- the needs of the Tioga system and the Gilford system are distinct. And, the rates -- and, the rates are not blended, they're distinct. You know, the rates for the Tioga system are based on the plant in service and operational expenses for the Tioga system. The rates for the Gilford system are based on the plant in service and the operational needs for the Gilford system.

BY MR. SPEIDEL:

Q. And, might I interject, Mr. Laflamme, you might have some insight as to the historical background related to the Gilford Village system, how it came to be under the control of the Company, the contribution of capital?

A. (Laflamme) Yeah. I believe that, when the Company acquired the Gilford Village system, there was a large amount of contributed capital, which reduced the rate base that -- reduced the rate base from which rates are determined for the -- for the Gilford Village system. Unlike the Tioga system, where there's -- I believe that there's no such contributed capital in the Tioga system.

CHAIRMAN GETZ: And, if I could make one change for the record, I keep calling Mr. Woodruff "Mr. Hoffman".

MR. WOODRUFF: Yes, that's right.

CHAIRMAN GETZ: I'm not sure where that came from, but let the record show I mean "Mr. Woodruff".

MR. WOODRUFF: Thank you.

BY THE WITNESS:

A. (Laflamme) And, also, if I may, Mr. Woodruff referred to the schedule that I believe is found on the NHPUC website. And, I think he was referring to the discrepancy between -- between the rates indicated on that particular schedule, and the rates indicated on the respective Schedule 5s for Attachment A and B.

The purpose of the schedule that's found on the NHPUC website is to compare, on a statewide basis, the water rates for each of the regulated utilities within New Hampshire. In order to do that, a single -- a single consumption amount of 8,800 cubic feet was used as the basis for determining these rates. Whereas, in the Schedule 5s that are in the Settlement Agreement, those are based on the actual consumption during the test year for the Gilford system and the Tioga system. So, that's why I believe that consumption -- the consumption amounts in the Settlement Agreement are lower, because that's based on actual. The consumption that's used on the State website is a standard for comparison purposes of 8,800 cubic feet per customer.

CHAIRMAN GETZ: So, in the "$313.04" from Schedule 5, Attachment A, what's the -- how many cubic feet were assumed for that?

WITNESS LAFLAMME: Average annual usage per customer is 5,963 cubic feet. That's for Tioga. And, for Gilford, the average annual usage per customer was determined to be 3,907 cubic feet annually.

CHAIRMAN GETZ: Thank you.

MR. SPEIDEL: At the present time, Staff has no further questions of the panel.

CHAIRMAN GETZ: All right. Then, Mr.

Woodruff, do you have questions for any of the panel?

MR. WOODRUFF: Anything guys? It has to be for this panel?

MR. CARCHIA: I guess, my problem is --

CHAIRMAN GETZ: Sir, you've got to speak into the --

MR. CARCHIA: I guess I have no questions, because -- I have no questions. I'll make my statement at the end.

CHAIRMAN GETZ: Okay. Commissioner Ignatius.

CMSR. IGNATIUS: Thank you.

BY CMSR. IGNATIUS:

Q. I have a number of different areas I want to get into, and taking a moment to try and figure out how best to sort them out. Maybe just a moment ago there was some distinction, an explanation of the distinct operational and supply aspects of the two different companies, even though they're both under the Tioga Water Division -- the Water Company overall. Let me just ask a few more questions about that, Mr. Laflamme.

Is there any way in which the improvements that have been made to the Tioga Division will benefit customers in the Gilford Division?

A. (Laflamme) I don't believe -- I don't believe so.

A. (St. Cyr) No, I would say "no". These are improvements that were specific to the physical location in Tioga and the physical location in Gilford Village Water District. So, the improvements that were made will benefit the individual groups of employees -- or, customers for each division.

Q. And, Mr. St. Cyr, I know that, as to any construction on the physical assets in the Tioga Division, there would be no benefit to the Gilford customers. But some of the loan proceeds were described as being "in support of company operations", in a very general sense. Is there any way in which those loans benefit both companies? And, if so, is that reflected in the way that the rates are allocated? I don't mean "both companies", both divisions.

A. (St. Cyr) Again, the loans are specific to each division. If you look at -- if you look at Attachment A, Schedule 1a, what you have here is -- this is the total company capitalization in an attempt to get to the weighted average cost of capital. Well, the top third is specific long-term debt specific to Tioga Division, the middle third is long-term debt specific to the Gilford Village Water District, and the bottom third is the equity. The equity component is not a factor in the determination of rates, because it's negative. So, at that point, we're left with determining the rate of return based on the debt related to each division. And, in the case of Tioga Division, there was one loan, a 2002 loan, and the interest rate was 6 percent. That same 6 percent interest rate is what's used as the rate of return for the calculation of rates for the Tioga Division.

Q. Let's continue to talk about the loans then. The Company entered into three different loans, 2006, 2007, and 2008, but did not seek Commission approval for those. Is that right, Mr. St. Cyr?

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

Q. Did it seek approval of the 2002 note, the loan that's noted here?

A. (St. Cyr) My recollection is that it was approved as part of a 2002 rate case.

Q. So, it wasn't that Mr. Harris was not aware of the requirement?

A. (St. Cyr) No. It's more a practical situation, in that the Company has a given need, and it doesn't have any -- it doesn't have the internal resources in which to meet that need. When it's in that situation, it goes to either the owner, Mr. Harris, or Gilford Well. Gilford well is an affiliate, who very often does the work as it pertains to wells and pumps. So, the need arises, and they meet the need, and then they worry about getting the approval, you know, as time permits.

Q. When was the last rate case that the Company brought forward?

A. (St. Cyr) It was a 2002 case.

Q. And, did you see the comments of the Tioga District, perhaps in their intervention request, that, if there had been increases along the way, rather than hitting so hard at one point, it would be easier for customers to absorb?

A. (St. Cyr) I didn't see that comment. And, you know, that there's no doubt that increases along the way is better for this company or any small company. This is actually a discussion that we've had internally with the Company, really going back to 2006, when they first borrowed that money. That's an external sign that it's, you know, it's not able to meet its requirements. The fact is, it's expensive in which to pursue a rate case. And, in some cases, the time and effort and money, the Company would just as soon absorb the cost in the interim, until something comes along that puts it in a position where it's not able to do that anymore. And, in this particular case, the something that came along was the federal funds and the State Revolving Funds, in order to do the improvements, they had to do it, they were so significant that it put the Company in a position where it really had no choice but to file a case. And, at that time, it incorporates some of the other investments and loans as part of that case.

Q. Mr. Laflamme, in calculating the interest rates that were agreed to in the Settlement Agreement for those prior loans going back 2006, '07, and '08, I take it the prime rate that was the base for calculating all of the loan -- all of the interest rates, the prime rate varied according to when the loan was first entered into, is that correct?

A. (Laflamme) Yes. It was actually the -- the Staff relied upon a schedule, I believe that it obtained off of the internet, indicating what the average prime rates were for those three particular years. And, so, the loans were based upon the average prime rate during 2006, '07, and '08, and then 1.33 percent was added onto those three average rates.

Q. So, it was an effort to recreate what might have been the result, if the Company had come in when those loans were first executed?

A. (Laflamme) Yes.

Q. If you were to set an interest rate based on current prime, what would the rates be for those loans?

A. (Laflamme) I'm not certain what -- I'm not entirely certain what the prime rate is currently.

A. (St. Cyr) I think the current prime rate is 3.25 percent. And, if I just may address that a little bit. The Company did borrow money from the owner and Gilford Well. It recorded that loan on its books. It expended the funds, mostly for pumping equipment and some other improvements and operational expenses. At the time of the 2006 loan, the Company had placed a 9 percent interest rate on it. The 2007 interest rate was also 9 percent. And, I believe the 2008 loan was 6 percent. And, those interest rates that the Company placed on those loans at the time were consistent with the sort of prevailing rates at the time. This is not a company that has been able to service those loans. You know, again, the present authorized level did not allow the Company to pay principal or interest on those loans since they were initiated back in 2006, '07, and '08. So, it's been carrying those loans. The owner and Gilford Well have been carrying those loans without being serviced, and won't be serviced until, really, the conclusion of this case and the incorporation of those rates into, you know, the customer rates.

Q. And, the Settlement Agreement proposes that the rates -- the interest rates charged work out to, I'm looking at Page 10 of the Agreement, they range from 9.29 percent at the high, to 6.42 percent for the three -- I misspoke, the third number is 8.05 percent is the one in 2007.

(Court reporter interruption.)

BY CMSR. IGNATIUS:

Q. Yes. That the Settlement Agreement proposes the 2006 loan interest rate be 9.29 percent, 2007 loan be 9. -- excuse me, yes, 9.38 percent, and the 2008 loan be 6.42 percent. Is that correct?

A. (St. Cyr) That's correct. And, those interest rates are incorporated in the rate of return applied to Gilford Village Water District.

Q. So, if you were to calculate those interest rates based on current prime, which you were recollecting, though this isn't holding you to the number, is somewhere around 3.25 percent. And, then, were to add the 1.33 percent, that's standard in these calculations, I'm not asking you to agree to this number as a sound proposal, but the math works out to it being 5.58 percent, is that right?

A. (St. Cyr) Well, 3.25 percent, plus 1.33, would be 4. --

A. (Laflamme) 4.58 percent.

A. (St. Cyr) 4.58 percent.

Q. You're right.

A. (St. Cyr) Which is actually -- I think that's the interest rate on the Gilford Well loan that was incurred for the engineering costs that the Company had to pay during 2010.

A. (LaFlamme) Right.

Q. Thank you. The SRF loan has a 50 percent forgiveness requirement, correct?

A. (St. Cyr) Provision, yes.

Q. And, in the documents, I just want to clarify one number. You've got, after the 50 percent forgiveness remaining, "$61,894" listed. In the initial filing of the Company, it listed the 50 percent level would get you to "75,500". What's the different between those two numbers?

A. (St. Cyr) Yes. The 50 percent reflected in the schedules is 50 percent of the -- overall, the Company borrowed $230,000 from State Revolving Funds. And, the

50 percent that's reflected in the schedule is 50 percent of that amount that it borrowed. Offhand, I don't know what we submitted originally as part of the filing. But the concept would have been the same, that 50 percent of whatever we anticipated borrowing at the time would have been incorporated in the initial filing.
Q. Is the money -- the costs related to -- I'm sorry, the figures that are listed related to the SRF, are those fixed at this time or are they part of the uncertainty that Mr. Laflamme was referring to?
A. (St. Cyr) The amount borrowed, the 230,000, is fixed. The --
Q. So, -- go ahead.
A. (St. Cyr) The uncertainty has to do with the total of the construction cost and the support for that.
Q. When will that become final?
A. (St. Cyr) Mr. Laflamme said "in the near term", and I think that's accurate. We just received the audit report yesterday. There's a few finds. The Company has to, you know, provide additional supporting documentation, in order to respond to the finds.
Q. Are you saying "fines" or "findings"?
A. (St. Cyr) I believe they're identified as "finds" in

the audit report.

CHAIRMAN GETZ: F-i-n-d-s.

WITNESS ST. CYR: F-i-n-d-s.

CMSR. IGNATIUS: Thank you.

BY CMSR. IGNATIUS:

Q. How should we evaluate the proposed recoveries in the Settlement Agreement, if they are still open questions on the new construction?

A. (St. Cyr) The Settlement Agreement provides that there not be a material difference between what's reflected in the schedules and what's reflected in terms of the final numbers. To the extent that there is a material difference, the Company would expect that, you know, we would agree to that and, you know, submit perhaps a new set of schedules that would identify what the new rates would be based on those final costs.

Q. Do you have any ballpark sense of what a "material difference" would be?

A. (St. Cyr) It's an amount that the Company and Staff would agree to. I don't really know what that amount would be offhand. You know, my "material difference" is likely to be higher than Staff's. So, I would say that we would probably come to some agreement, so that there would be no, you know, no difference between the

Company and Staff as to what that amount would be.

Q. Mr. Laflamme, any thoughts on that?

A. (Laflamme) Just that, you know, we're anticipating that the Company and Staff will move hastily to resolve these issues, and to finalize the audit on this, and come to -- and come to an agreement with the Company, relative to firming up the numbers that are reflected in the Settlement Agreement.

Q. I know there was an effort to have things finalized in order to meet the quarterly billing effective on service effective October 1st. Is it possible that the next quarterly billing, beginning in January, be the time that implementation of these new rates would go into effect, to allow the finalization of all of these open questions to be factored in?

A. (Laflamme) I think, you know, we see that we have essentially three months to resolve these issues. I don't believe that it's going to -- it's going to take three months to resolve these questions. So, at this point, I see a resolution of these matters in time for the new rates to take effect as indicated in the Settlement Agreement.

Q. So, in terms of timing, the quarterly billing would go out at the end of December, to cover October through

December, or early January to cover --
A. (Laflamme) I believe it's early January.
A. (St. Cyr) That's correct.
Q. All right. So, your expectation in the Settlement Agreement is that changes in rates be approved, but not appear in bills until those January 2012 bills for the prior quarter?
A. (LaFlamme) Correct.
Q. All right. Mr. Laflamme, in the description of changes to the books for the Company going forward, clearly, there is a concern that something -- some of the bookkeeping was not in conformance with Commission standards in prior years. Does that lack of conformity make it difficult for you and Staff to scrutinize the appropriateness of expenditures by the Company? Were you able to do your job in looking through the books in this case?
A. (LaFlamme) Yes. I think we, you know, through discovery and analysis performed by Staff, plus the efforts that the Company went through during that suspension period, have enabled -- enabled Staff to feel pretty confident in the amount of plant that's reflected in rates. So, I have -- I'm very confident in the numbers that are being -- that are being

presented for permanent rates today.

Q. And, you're confident that the split of the allocation of costs between the two divisions, which can be a tricky thing in some companies, has been done appropriately?

A. (LaFlamme) Yes. You know, as I indicated, the Audit Staff went out and audited each of the divisions. That was an issue that they specifically look at. And, they indicated that there were no exceptions or errors regarding the allocation of costs between the two companies -- or, the two divisions.

A. (St. Cyr) If I could just add to that?

Q. Please.

A. (St. Cyr) First of all, with respect to the Company's recordkeeping, I just want to make sure that the Commission understands that, you know, these were costs that were, in fact, recorded on the Company's books. Where they fell short is that they tended to be in a more summarized fashion than is required by the Commission's requirements. So, the process that the Company went through was to essentially break those existing costs reflected on the books into, you know, a more detailed description and a more detailed identification of the components.

And, then, second, with respect to the determination and allocation of costs between the two divisions, there were a couple of items where the Company had been evenly splitting costs between the two divisions. And, as part of this process, again, we fine-tuned that to make it more specific to the two divisions. A couple of costs that come to mind is insurance, for example. I think we were initially splitting that 50/50, and now it's being split based on the value of the plant property. And, I think there was another type of cost that was splitting -- we were splitting 50 percent as well. And, again, it was based on plant value. So, we now have that maybe better refined and more accurate coming out of this particular case.

Q. Mr. St. Cyr, are costs that have been expended by you or others in bringing the bookkeeping into conformance removed from the proposed rate case expenses you'll be filing?

A. (St. Cyr) The Company has not pulled those costs together. And, we'll identify those costs as part of any filing that the Company would make.

Q. Mr. Laflamme, would it be possible, not this moment on the stand, but would it be possible for you to calculate what the rate impact would be if the interest rate were, for the prior three loans that were never approved by the Commission, were reduced to be calculated the same way the other is being done, so that it was a 4.58 percent interest rate?

A. (LaFlamme) Staff could supply that, yes.

Q. All right. Let me just finish. I'm struck that the -- if the Company had come in as required by law, the rates in two of the years would have been lower than the rates proposed in the Settlement Agreement. And, in either case, it sounds as though there is not a -- let me ask it directly. Did the interest rates provided for in the Agreement reflect any notion of penalty on the Company for failure to come in and seek approval as required?

A. (LaFlamme) No.

A. (St. Cyr) If I may just comment on the interest rate?

Q. Yes, please.

A. (St. Cyr) I guess, two comments. First of all, the 1.33 percent was an agreed upon amount that the Company believes is a component of the Settlement Agreement as a whole. And, to the extent that certain interest rates were to be lowered to the current prime plus 1.33 percent, I'm not sure that the Company would have agreed to that. And, second, you know, the Company -- we're using prime plus 1.33 percent. This is a company that could not borrow anywhere near 1. -- or, anywhere near prime plus 1.33 percent. It's fortunate that it has an affiliate that does work for it and gets paid when money is available, and not really on any particular schedule. And, it's fortunate that the owner has put money in. And, in both cases, neither the owner or the affiliate have gotten paid since those loans were provided. So, any carrying costs they have absorbed all these years. And, again, I'm not sure that the Company would agree to the Settlement Agreement if, for some reason, the interest rates that we agreed to were to be recalculated.

CMSR. IGNATIUS: Thank you. Nothing else.

BY CHAIRMAN GETZ:

Q. Just a couple of questions. One, I guess, goes to this notion of the way this is structured for both companies, there's a permanent increase and a step increase, but they're really going to take effect at the same time. And, maybe I'll start with you, Mr. Laflamme. I mean, typically, a permanent increase would be something that would -- that the Commission would approve at the end of a proceeding, and a step increase would be something that would take effect at some point in the future. So, what was the thinking behind structuring the Settlement Agreement this way? Was it just to lay out the separate costs or was there some other goal in mind?

A. (LaFlamme) Well, I think it was to preserve the sanctity of ratemaking in the State of New Hampshire. Whereas, permanent increases are based upon the test year, which, in this case, is 12/31 -- 10/31/09. The step increase is based on improvements that were made post test year. And, so, the only -- the only, I guess, the only reason that it was set up as such was that -- was to preserve what the standard is on behalf of Staff is that permanent increases are based on a test year; step increases are based on post test year improvements. And, on the whole, it doesn't make any difference in order just to preserve that, preserve that separation between permanent increases and step increases.

Q. So, some of it here is just an issue of the passage of time since the filing of the notice of intent to file, using an historical test year, and that the -- that the Company had already undertaken the steps to put the additional plant in service, and it came in service during the pendency of the case, is that --

A. (LaFlamme) Yes. I believe that the improvements in 2010 were -- I believe that they were in service prior to the Company's filing, but I'm not -- my memory is fading.

Q. Oh. So, it could be prior to the filing, but after the test year that was used?

A. (LaFlamme) Correct.

Q. Then, maybe a few more questions about the loans. Because it seems to me, the issues with respect to the loans go to, you know, whether they were necessary, which I think has two aspects, whether they were necessary, in terms of financially necessary, and then whether they were -- whether the use of the proceeds, the plant additions themselves were necessary. And, I guess the other issue is whether they're commercially reasonable terms in the loans. But I want to start with the first item with Mr. St. Cyr. You were talking about the -- there was a rate case in 2002. But that there were insufficient revenues generated coming out of that rate case to undertake the additions, is that correct?

A. (St. Cyr) Yes. I would say, coming out of any rate case, while there's sufficient revenues to cover your expenses and to repay, you know, loans on past improvements, the present authorized rate coming out of any case would not provide funds in order for them to make other improvements to the system. You know, that the Company really has to borrow money in order to do that.

Q. Well, that's what I'm trying to get to. What's the reasonable expectation for a small water company, if it has significant additions? Should there be an -- because it seems to me that you're almost going to the point of whether it was reasonable for them to be able to fund such additions out of retained earnings, or would it be more typical, of course, that there would have to be loans, that debt would have to be incurred to fund such additions?

A. (St. Cyr) This particular company doesn't have any retained earnings. It would have retained deficit. So, the choice for this company would be to borrow money or, I suppose, the owner could put equity in, rather than loans. But those are essentially the two choices that a company would have.

Q. Or not make the additions?

A. (St. Cyr) I'm not sure the Company views that as an option.

Q. And, then, with respect to, I guess, Mr. Brogan, your opinion with respect to, you know, the use of these proceeds of these loans for these additions, is it your view that the various additions for both of the divisions were necessary?

A. (Brogan) I think so. I think it was pump and tank and meter replacements, and a new well in the Gilford Division as I recall. But my impression was they were needed improvements.

Q. And, then, I guess the other issue goes to some of what Commissioner Ignatius was talking about, and this is for Mr. Laflamme, whether the terms are, at least as they're expressed in the Settlement Agreement, are commercially reasonable? And, this is what I want to make sure I understood what, and I'm not sure if it was Mr. St. Cyr or Mr. Laflamme spoke to this, but, for the numbers that you used for the 2006, 2007, and 2008 loans, someone went back to see what the prevailing rate was at that time or how were these numbers put together?

MR. SPEIDEL: Yes, if I may interject, Mr. Chairman. Mr. Laflamme, do you recall that Staff procured an official report from the Federal Reserve Board regarding the average prime rates for each of those years?

WITNESS LAFLAMME: Yes.

MR. SPEIDEL: Thank you.

BY CHAIRMAN GETZ:

Q. So, then, if I'm on Page 10 of the Settlement Agreement, in the middle, this is Exhibit 1, where it says "the 2006 loan the interest rate is 9.29 (7.96 + 1.33)", so that "7.96" was a number derived from the Federal Reserve Board --

A. (LaFlamme) Yes.

Q. -- for that year?

A. (LaFlamme) Yes.

Q. And, Mr. St. Cyr, and this 1.33 adder that's here, you're saying that that's, if the Company had gone out to try to acquire from a commercial lender, what would your expectation of that that -- what would that delta be if it were from a commercial lender, if it's something other than the 1.33?

A. (St. Cyr) I think it's approximately what it would have been at the time. At the time that the Company borrowed the money, it did, in fact, assign an interest rate to the amount that it borrowed. And, as I said earlier, it was 9 percent, 9 percent, and 6 percent, for 2006, '07, and '08, respectively. And, my recollection is at the time we were looking at what the Commission approved for financings around that time period. So that we not only assigned an interest rate that was sort of prevailing at the time, but it was consistent with what the Commission was approving for financings during those time periods.

Q. But I thought you had said that the Company could not obtain a loan from a commercial source?

A. (St. Cyr) I did say that. And, these are loans with the owner or its affiliate. The Company in and of itself could not borrow with the financials that it has, and likely would have paid an even higher rate --

Q. Well, that's what I'm trying to get to. If it didn't take the loan from the affiliate or the owner, what type of interest rates would you be talking about?

A. (St. Cyr) I would only be guessing. I can only say that it's likely that it would be higher than what the Company assigned itself at the time, and it would be higher than what the Company has agreed to here as part of the Settlement.

Q. Do you have any opinion on that, Mr. Laflamme, or any basis for offering an opinion on what interest rates might otherwise be for this entity?

A. (LaFlamme) I really don't have any basis for any opinion on that.

CHAIRMAN GETZ: Did you want to, Commissioner Ignatius, reserve an exhibit for that calculation?

CMSR. IGNATIUS: Yes. Thank you. I forgot to ask for that. That would be helpful.

CHAIRMAN GETZ: Let's reserve Exhibit 6 for the calculation of what the interest rate -- "if we use a 4.58 percent interest rate, what effect that would have on rates?", I guess is the question.

(Exhibit 6 reserved)

WITNESS LAFLAMME: Just a point of clarification. That would just be on -- in terms of the 2006, 2007, and 2008 loans?

CMSR. IGNATIUS: That's right.

WITNESS LAFLAMME: And not on the other loans that are associated with -- in the Settlement Agreement. Just the three loans that the Company was seeking approval for in the initial filing?

CMSR. IGNATIUS: Yes. And, I take it the SRF loan already is at that level, correct?

WITNESS LAFLAMME: The SRF loan is, I believe, is what, 2.84 percent --

CMSR. IGNATIUS: Oh, I'm sorry. I've

got the wrong number. But your question --

(Court reporter interruption.)

WITNESS LAFLAMME: I believe the SRF loan is --

WITNESS ST. CYR: I can respond to that. The SRF loan is 2.864 percent, to which there are some relatively minor financing costs that are added, which gets it to a little bit over 3 percent for both the SRF loans for each division.

CMSR. IGNATIUS: Thank you. And, the answer to your question is, it would be to apply the 4.58 percent to the three loans from 2006, '07, and '08, and see how those numbers then flow through. Thank you.

CHAIRMAN GETZ: Okay. I don't have anything further. Is there anything in redirect, Mr. Speidel? Nothing? Mr. --

MR. CARCHIA: Mr. Carchia, Tioga resident.

BY MR. CARCHIA:

Q. I just have a question that needs some clarification on a statement that was made in here about the loans. Okay. On Page 9 of the Settlement, "Loans from Affiliate and Shareholders", "Tioga borrowed $3,580 from its affiliate, Gilford Well" for the Tioga

Division, okay, and that's the only loan that I see in here as far as borrowing from Gilford Well for the Tioga Division. All those other loans are pertaining to GVW. And, for some reason, I might be confused by this, but it seems like it's all being consolidated and being a burden towards the Tioga residents also. I just need a clarification on that, whether that was incorporated in that, or is it that $3,580 represents just the Tioga Division, has nothing to do with Gilford?

CHAIRMAN GETZ: Mr. St. Cyr, can you speak to that?

BY THE WITNESS:

A. (St. Cyr) Actually, if you look at Schedule 4c.

BY MR. CARCHIA:

Q. Page?

A. (St. Cyr) This is Attachment A, 4c. The loan to Gilford Well --

CHAIRMAN GETZ: Well, let's let everybody get there.

BY THE WITNESS:

A. (St. Cyr) It's the second to the last page in Attachment A.

MR. CARCHIA: Thank you. Okay.

BY THE WITNESS:

A. (St. Cyr) The specific loan that you're referencing is identified there "2010 Gilford Well Loan $3,580". The anticipated interest rate, about midway across the page, is "4.58 percent". And, it's taken into consideration in the weighted average cost of debt. The "3.22 percent", the weighted average cost of debt, is what's being -- is what's being used as the rate of return for the loan from the State -- well, for the combined State loan and Gilford Village Well loan.

BY MR. SPEIDEL:

Q. So, Mr. St. Cyr, just to be perfectly clear, the 2006, '07, and '08 loans referred to under the Gilford Village schedule of the Settlement are not being applied to the Tioga Division rates, correct?

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

MR. SPEIDEL: Thank you.

CHAIRMAN GETZ: Is there anything further for the panel?

MR. WOODRUFF: No thank you.

CHAIRMAN GETZ: Okay. Then, hearing nothing, then the witnesses are excused. Thank you, gentlemen.

Is there any objection to striking the

identifications and admitting exhibits into evidence?

(No verbal response)

CHAIRMAN GETZ: Hearing no objection, they will be admitted into evidence. Is there anything we need to address prior to opportunity for closing arguments?

(No verbal response)

CHAIRMAN GETZ: All right. Hearing nothing, then we'll begin with the Tioga Drive homeowners, Mr. Woodruff.

MR. WOODRUFF: Okay. A couple of things. First of all, we do -- we do not approve of the large increase which is being asked of us. Secondly, one of the things that we're looking at also is the concept that our fixed charge is going from $39.93, up to $60 per quarter. The problem with that is it's a fixed charge to the point where we have no control. If I want to lower my water rate right now, I cannot take a shower next week, if I want. But, guess what? I can't stop that fixed charge. That fixed charge is going to hit me no matter what I do. So, that's another reason why we're looking not to go with this.

And, if we are going to be forced, and I'm going to use the word "forced", into a premium rate then I'm looking for premium service. And, I want to know what kind of premium service we're going to be actually looking for -- or, looking at.

Did you have something else you'd like to say?

MR. CARCHIA: Pretty much -- my name is Bob Carchia, and pretty much the same situation. All the res -- I've spoken to many of the other residents in our neighborhood. And, an increase of that magnitude, it's unacceptable. Unfortunately, we're in a time of economic distress, all of us. And, I can only compare this increase of 97, it's, for sake of argument, a 100 percent increase, it's actually doubling it.

If I borrowed a car -- a loan out for a car, all of a sudden the finance company comes up to me and says "Hey, we decided that, you know, we're not making enough money, so we're going to double your interest fees." It's pretty much the same thing.

We're caught. Where are we going to go? We're stuck with a monopoly here. Where are we going to go for water? It's going to create a burden on all the residents in our neighborhood. A 100 percent increase is totally unacceptable, but especially in this particular economic time. And, we have -- and, there's a lot of our residents there on fixed income. You know, myself, I am unemployed. I'm not even getting unemployment. My wife works at Wal-Mart. What's that tell you? I make a lot of money. You know, it's going to be a burden on all of us.

And, to do it in one whack just like that is -- to me is greed. If they did spread it out over time, that would -- we could probably absorb that. But, to hit us in the wallet like that just in one whack is totally unacceptable. And, that's my personal feeling, and along with a bunch of the other residents that couldn't make it.

Short of selling my house and moving out to a district where the water is included, we're stuck with a monopoly. And, Ma Bell was broken up because of that reason. Who else would we go to for our water, short of drilling our own well, which would cost us tens of thousands of dollars?

CHAIRMAN GETZ: Okay. Thank you.

MR. CARCHIA: Thank you.

MS. BANCROFT: I'm Carolyn Bancroft, also a resident. My husband and I are both on fixed incomes. Excuse me. It's very upsetting, because I can see where Gilford Well is coming from. I can see the need. We all have it. But we don't have it to give.

I didn't mean to get emotional. Okay. There is just one thing, and that is, you've got to look at the other guy. We have to do that, in our daily business, in our daily living. My dad had a phrase, and I'd like to just close with that: "There is a destiny that makes us brothers, none of us traveled this way alone; what we put into the lives of others will come back into our own."

Please consider that when you make your decisions. Thank you.

CHAIRMAN GETZ: Thank you. Mr. Speidel.

MR. SPEIDEL: Staff would like to state that it has welcomed the participation of the Tioga Drive homeowners throughout this process. We found their attention to this case to be very helpful to us, to allow us to analyze issues carefully, and to bring a sharp pencil to the Company's filings.

As part of that, Staff had, essentially, as part of the terms of the Settlement Agreement, cut down 30 percentage points out of the rate increase. And, Staff is mindful of the fact that that's still very unsatisfactory to the homeowners and to customer groups in general. But, unfortunately, we have to take into account the fact that this very, very small water system has made needed improvements to the infrastructure, without which the water system would not be able to function.

And, so, Staff supports the Settlement Agreement that it has made with the Company. Thank you.

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

MR. ST. CYR: The Company, obviously, supports the Settlement Agreement. We appreciate working with Staff, and would acknowledge the input that the homeowners have had in the process. We would also acknowledge that the end result is high. It's high because of the improvements that it has made. The Company saw an opportunity to make the improvements when federal funds were available, and half of those funds would be forgiven. We hesitate to think what rates would be if the forgiveness wasn't there or the funds weren't there. It saw the opportunity, it took advantage of it, it made the improvements. These are improvements that were required by DES that have been under consideration since the last case in '02. Unfortunately, it's what's necessary in order for the Company to pay back the loans for the funds that it borrowed to make those improvements.

And, respectfully requests that the Commission take it under consideration and make its finding. Thank you.

CHAIRMAN GETZ: Okay. Then, thank you, everybody, for your participation. We will take the matter under advisement and issue an order as soon as we can. Thank you.

(Whereupon the hearing ended at 12:00 p.m.)