STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DW 11-026

In the Matter of:
Joint Petition of City of Nashua and Pennichuck Corporation et al Approval to Acquire Stock of Pennichuck Corporation

Direct Testimony

of

Mark A. Naylor

August 30, 2011

New Hampshire Public Utilities Commission

City of Nashua/Pennichuck Corporation

DW 11-026

Joint Petition for Approval to Acquire Stock in Pennichuck Corporation

Direct Testimony of Mark A. Naylor

Q. Please state your name, occupation, and business address.

A. My name is Mark A. Naylor. I am Director of the Gas & Water Division at the New Hampshire Public Utilities Commission (Commission). My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire. My experience and qualifications are attached to this testimony as Attachment MAN-10.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Staff's recommendation with respect to the proposed acquisition of the stock of Pennichuck Corporation (Pennichuck) by the City of Nashua (Nashua or the City).

Q. Please summarize this proposed acquisition.

A. On November 11, 2010, the City and Pennichuck executed an Agreement and Plan of Merger (the merger agreement) wherein the City agrees to acquire all the outstanding stock of Pennichuck for $29 per share. The City and Pennichuck assert that the merger agreement is a resolution of the eminent domain "dispute" which has been ongoing since the City first filed a petition with the Commission to take the utility assets of Pennichuck's three utility subsidiaries in 2004. Pursuant to the merger agreement, the City would become the sole shareholder of Pennichuck, and would thereby acquire control of the five operating subsidiaries: Pennichuck Water Works, Inc. (PWW);

Pennichuck East Utility, Inc. (PEU); Pittsfield Aqueduct Company, Inc. (PAC); Pennichuck Water Service Corporation (PWSC); and The Southwood Corporation (Southwood). PWW, PEU, and PAC (together, the utility subsidiaries) are regulated public utilities pursuant to RSA 362:2 and 362:4. PWW serves about 26,000 customers in the City of Nashua and the towns of Amherst, Hollis, Merrimack, and Milford through its "core" system, and through community water systems in seven other towns. PEU serves about 6,800 customers in nineteen towns in the state. PAC serves about 650 customers in the Town of Pittsfield. The proposed transaction will be accomplished by the merger of a newly-formed subsidiary owned by the City into Pennichuck. Pennichuck will be the surviving corporation in the merger, with Nashua as the sole shareholder. Pennichuck will cease to be a publicly-traded company, and the associated costs such as corporate administration and regulatory requirements, as well as the costs for four executives, all totaling about $1.7 million, will be eliminated. Post-merger, Pennichuck and the five subsidiaries will continue their existence as separate legal entities, and PWW, PEU, and PAC will remain regulated public utilities under RSA 362:2 and 362:4. The merger agreement contains several provisions which must be met prior to consummation of the deal, some of which have already been met including approval of Pennichuck shareholders by a two-thirds vote, and vote of the City's Alderman to move ahead with the proposal. Remaining provisions include Commission approval; and the ability of the City to obtain financing at reasonable rates and terms. Nashua will finance the transaction through the issuance of general obligation bonds by the City. Special Legislation passed by the New Hampshire General Court in 2007, and as amended in 2010, empowers the City to enter into a consensual transaction with Pennichuck to acquire its stock as a "resolution" of the eminent domain action taken by the City. That Special Legislation also provides that the Commission review the proposal and make a public interest finding for the transaction to take place.

Q. Please briefly describe the City's public interest case.

A. Nashua states that acquisition of Pennichuck will give the City control over its water supply and the ability to protect and preserve watershed land. The City asserts that it will be able to stabilize water rates for the three utilities and that rates, over the long term, will be lower than under present ownership. The City states that under this proposal it will acquire more assets and property than it would have under the Commission's order approving its taking of the assets of PWW, and that by acquiring all three utilities the existing synergies from common integrated management will be retained. The City also asserts that this acquisition will preserve the jobs of all existing Pennichuck employees, and that customers will benefit from doing business with the same people as in the past. The City also cites as a benefit the continued regulation of the utility subsidiaries by the Commission, providing protection to customers who reside outside Nashua. Finally, Nashua describes its proposal for corporate governance, managed by a qualified board of directors, which will ensure a continuance of the highest quality water service.

Q. Please describe the ratemaking "structure" the City is requesting.

A. The City is proposing to issue approximately $157.0 million in general obligation bonds in order to finance the acquisition. The $157.0 million is proposed to be deployed as follows: purchase of outstanding stock $137.8 million; transaction costs $5.3 million, to cover costs including legal, accounting, and advisor fees incurred to negotiate and complete this transaction; repayment to the City for its costs pursuing the eminent domain against Pennichuck $5.0 million; establishment of a Rate Stabilization Fund (RSF) $5.0 million; severance costs $2.1 million, for severance packages for Pennichuck executives leaving employment at the consummation of the merger; and bond issuance costs $1.8 million. The City plans to issue fully amortizing 30-year bonds, with responsibility for the principal and interest payments on these bonds allocated to the three utility subsidiaries in these principal amounts: PWW, $120.6 million; PEU, $19.5 million; and PAC,

$2.7 million. Southwood is also allocated a share, in the amount of $4.1 million. The City also refers to this allocation of bond service obligation as the City Bond Fixed Revenue Requirement (CBFRR) in that the principal and interest payments on each utility's share of bond service obligation would be a known, fixed amount included in the calculation of customer rates going forward. In addition to the allocation of $147 million in bond service obligation as detailed above, responsibility for repayment of $9.3 million of bond proceeds is also allocated to PWW for inclusion in its rate base, representing recovery of the City's approximately $5 million cost to prosecute the eminent domain taking of PWW, and $4.2 million of funds for its RSF[1]. The City is also asking to allocate $658 thousand to PEU's rate base to establish its RSF, and $92,762 to PAC's rate base for its RSF. This allocation of bond cost responsibility to the three utility subsidiaries is the heart of the City's proposed ratemaking structure; each of the utilities will be directed to pay intercompany dividends out of earnings to Pennichuck Corporation, which in turn will pay dividends to the City for application to the bond service costs[2]. In supplemental testimony filed July 1, 2011, the City proposed the establishment of regulatory assets on the books of each of the utilities, arising from two concerns raised in discovery. The first concern relates to certain financial covenants contained in current debt arrangements of PWW and PEU, where restrictions exist pertaining to ratios of debt to total capital that each company must maintain. The second concern arises from the minimal level of equity that would exist in the utilities going forward, and the fact that this equity could eventually become inadequate or exhausted. In this event, and in spite of having adequate cash available, the utilities could be unable to pay the dividends needed for application to the City's bond service costs. The City thus proposed establishment of what it calls a Municipal Acquisition Regulatory Asset (MARA), the

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[1] The $157 million bond issue includes a total of $5 million for an RSF, to be contributed as equity and allocated as indicated to the utility subsidiaries for inclusion in rate base. This $5 million is intended to provide a reserve of funds available to be used for bond service costs in the event that utility revenues decline for any reason.

[2] As detailed in the testimony of City witness John Patenaude, the City intends to capitalize Pennichuck with the bond proceeds in the form of both equity and debt. The City intends to establish an equity to capitalization ratio of 20%, and thus cash flows from Pennichuck to the City for bond service costs will consist of dividends paid by the operating subsidiaries as well as principal and interest payments on debt to be established immediately post-merger.

aggregate amount of which represents the excess of the purchase price over the book value of the assets of Pennichuck. The MARA on the books of each utility will be matched by credits to Paid-in Capital, an equity account, and will be amortized over the life of the acquisition bond issue. The proposal for recognition of a MARA in the City's supplemental testimony has no impact on the original proposal of allocating bond service responsibility to the utilities; it is simply a device to ensure the flow of dividend payments to Pennichuck, and then from Pennichuck to the City, for payments of principal and interest on the City's acquisition debt.

Q. What is the impact of the allocation of bond service costs on rates charged by the three utilities to their customers?

A. The City is estimating that there will be no impact on rates resulting from the merger and the assignment of bond service obligation to each utility[3]. The City anticipates that the revenue requirements that are necessary post-merger will be very similar to those which are the basis for customer rates in effect at this time for all three utility subsidiaries[4].

Q. How can the allocation of bond service obligation to each utility, as detailed above, not result in an immediate need for higher rates?

A. Under the City's original proposal, the portion of the total bond service obligation allocated to each utility would be considered as "buying out" that utility's existing balance of equity capital. In PWW's case, the allocation of $120.6 million of bond service obligation replaces about $52.6 million in equity capital, resulting in an increase of about $68.0 million in capitalization for this

[3] Nashua is using an interest rate on the general obligation bonds of 6.5% as a placeholder in its filing. The actual interest rate will not be known until the City actually moves forward with the financing.
[4] The analysis of revenue requirements for PWW under current ownership, for comparison purposes with revenue requirements needed post-merger, are as provided by witness Bonalyn Hartley, and are updated in her supplemental testimony provided July 1, 2011. The updated analysis for PWW is based on the Commission's final order issued June 9, 2011 in Docket No. DW 10-091. Ms. Hartley's analysis of PAC's revenue requirement is based on the Commission's final order issued June 8, 2011 in Docket No. DW 10-090. Analysis of PEU's revenue requirement under current ownership is based on its 2009 actual results, eliminating the assets, revenues, and depreciation expense recovered through the dedicated Capital Recovery Surcharge in three of its systems.

utility[5]. With no equity remaining on the books except that amount proposed as an RSF, all of the return on rate base to be generated through rates in the future would be based solely on the cost of debt, which is lower than the cost of equity. Now in its supplemental testimony provided by Mr. Patenaude, the City proposes creating a MARA as a regulatory asset for each utility as referenced earlier, with corresponding credits to an equity account. Under this proposal each utility will have positive equity balances, but the City has also indicated that it will not request consideration of this equity in future rate setting. The use of a debt-only capital structure is significant in helping to create "savings" from which to accommodate bond service costs, as recognition of these equity balances from establishment of the MARA would otherwise result in a higher cost of capital to customers in the future. In addition to this reduced overall cost of capital, the savings in corporate overhead and officers as referenced earlier are passed through to the subsidiaries. Along with these savings, depreciation expense on assets valued at an amount equal to the equity originally proposed to be "bought out" is also eliminated, creating additional savings. The February 18, 2011 testimony of witness Bonalyn Hartley provides all of this analysis for PWW as well as for PEU and PAC. When these proforma adjustments are applied to the current revenue requirements of the three utilities, and including the CBFRR assigned to each, the anticipated initial revenue requirements under City ownership are similar to those in effect at the present time.

Q. Is there a similar increase in capitalization for PEU and PAC resulting from the allocation of bond service obligation?

A. Yes. In the case of PEU, total existing equity capital of about $6.9 million is replaced with $19.5 million of bond service obligation. For PAC, equity capital of about $1.1 million is replaced with $2.7 million. These net amounts of additional capitalization ($68.0 million for PWW, $12.5 for

[5] This increase in capitalization represents the value of the proposed MARA. See Exhibit JLP (Supp.)-4 of Mr. Patenaude's supplemental testimony.

PEU, and $1.6 million for PAC) are the MARA value for each utility, essentially representing acquisition premiums, i.e. amounts paid in excess of the book value of the utility in order to effect the sale transaction.

Q. Earlier you mentioned that the City is requesting that $5 million of the $157 million bond proceeds be applied to reimburse the City for its pursuit of the eminent domain case, and that a total of $5 million be applied to establish an RSF. Are these requests part of the ratemaking structure that Nashua seeks in this proceeding?

A. Yes. The City proposes to retain $5 million out of the $157 million in bond proceeds to reimburse itself for the costs incurred in its pursuit of the eminent domain case against the Pennichuck utilities. The obligation to repay this $5 million would be specifically assigned to PWW by including this amount in PWW's rate base. As for the RSF, as indicated earlier, the proposed $5 million for an RSF would be allocated to the three utilities, contributed as equity capital, and placed in rate base to earn a return[6]. These funds would then be available for use at any time for covering any possible shortfall in revenue that any of the three utilities might experience which could impact their ability to contribute their assigned share of bond service obligation. The City has clearly indicated in this filing that it specifically requests approval of these two proposals as part of its overall request in this proceeding.

Q. What is Staff's recommendation regarding the proposed merger?

A. For the reasons that follow, Staff believes that the acquisition of Pennichuck Corporation by the City of Nashua should be approved, but only with conditions that modify the requested ratemaking for the utility subsidiaries. Staff also has recommendations regarding certain other matters related to the proposal, primarily in the area of risk-sharing.

[6] In response to a data request, OCA Tech 2-3, attached as Attachment MAN-1, the City expands upon its proposal for an RSF.

Q. Why does Staff believe the acquisition should be approved?

A. Staff supports Nashua's acquisition of Pennichuck primarily because it is a consensual transaction that will leave in place the operational structure of the utility subsidiaries, as well as most of the management structure of the company as it exists now. With the exception of four executives who will be retiring and will not be replaced, the current employees of Pennichuck will remain. PWW is the entity that actually employs the people who manage and operate the utilities, and is the entity that owns the common assets used in all of the businesses. As opposed to removing PWW, as would have been the case in the eminent domain taking, maintaining the current structure will provide a continuity of service that is a clear benefit. The established affiliate relationships between the utility subsidiaries (and between PWSC and the utility subsidiaries) for the sharing of personnel and common assets will ensure a continuation of the cost sharing arrangements that take advantage of the economies of scale that benefit customers. In addition, the structure of the acquisition as a stock purchase of Pennichuck means that the utility subsidiaries remain regulated by the Commission, which Staff believes is important considering that the City would be indirectly acquiring water systems which serve thousands of customers who reside outside of Nashua.

Q. Does Staff have concerns about the recovery of the acquisition premium being paid to acquire Pennichuck stock?

A. This Commission has a longstanding policy disfavoring the recovery of acquisition premiums from ratepayers in typical utility transactions. See *EnergyNorth Natural Gas, Inc.*, 85 NH PUC 360, 367-368 (2000); *Hampton Water Works, Inc.*, 87 NH PUC 104, 109, (2002); *Re National Grid plc*, 92 NH PUC 320 (2007). Acquisition premiums violate the original cost principle of utility ratemaking, which states that ratepayers should not pay on an amount in excess of the cost when property was first devoted to public service. This is because the excess cost represents only a change in ownership without any increase in the service function to customers. Staff believes, however, that there is an adequate basis for the Commission to approve the acquisition premiums in this case, its prior decisions notwithstanding, because the City can demonstrate that customer rates do not need to be increased considering the premium to be paid. In the EnergyNorth case, the Commission accepted provisions in a settlement agreement that preserved the right of the acquired utility to seek amortization of "merger related costs" that included an acquisition premium, in a future proceeding, with identified "merger related savings" providing the upper limit as to the amount of merger related costs to be sought. As detailed earlier, the City's acquisition of these utilities is accompanied by reductions in operating costs of about $1.7 million. These savings, along with the lower cost of capital on each company's remaining rate base, and the dedication of revenues collected for income taxes and a portion of cash flow from depreciation expense, results in the avoidance of rate increases as a result of the proposed transaction at the price negotiated.

Q. **The City claims that under its proposal to acquire Pennichuck, customers will pay lower rates over time with City ownership than customers would have paid under current ownership. Do you agree with this?**

A. Yes. The difference in rates, however, will only be based on the anticipated lower cost of capital that would result from having the utilities almost entirely capitalized with debt, as opposed to currently where the cost of capital results from a blending of both debt and equity capital.

Q. **What is the Staff's position regarding the requested Rate Stabilization Fund?**

A. It is certainly acceptable for the City to establish a reserve fund for cash flow contingencies. The funds, however, should not come from ratepayers. Additionally, an RSF from any source should not be placed in rate base.

Q. Please explain the Staff's recommendation with respect to the RSF.

A. These funds are to be raised through the City's $157 million debt issuance. The City's proposal is to "inject" the funds into the three utilities as equity, place the RSF in rate base, and earn a return on it[7]. There are two significant problems with this proposal. First, these funds are not equity and should not be treated as such. The funds are essentially ratepayer funds. Secondly, the proposal for rate base treatment is clearly a violation of RSA 378:30-a, the so-called "anti-CWIP" law. Under this law, ratepayers cannot be asked to provide a return on an asset that is not currently being used to provide utility service. Moreover, the sole purpose of the RSF is to insulate the City from the risk of vagaries of cash flow in operating Pennichuck. It provides no benefit to customers whatsoever. It is Staff's view that if the City wishes to own and operate regulated utilities, it needs to accept the same level of risk and reward that any other owner of regulated utilities must accept. The utility subsidiaries are not municipal utilities and should not be treated as if they were; the transaction as structured by the merger agreement provides that PWW, PEU, and PAC remain subject to regulation by this Commission under RSA 362:2 and 362:4.

Q. The City has requested that $5 million dollars of the $157 million to be raised through the issuance of bonds be used to reimburse the City for the costs it incurred in the attempted eminent domain taking of the Pennichuck utilities, with the responsibility of repaying that $5 million dollars assigned to customers of PWW. What is Staff's position with regard to this?

A. Staff would urge the Commission to reject the request. The City's costs in the eminent domain case do not in any way relate to the provision of utility service. In addition, PWW has about

[7] The City's proposal also calls for the RSF cash to be deposited into an interest-bearing account, providing an additional return.

3,800 customers who reside outside of Nashua who would be helping to reimburse the City for costs for an eminent domain process they did not vote for and had no say in.

Q. Does Staff have a concern about risk-sharing in this docket?

A. Yes. Staff is concerned that the City's requested ratemaking structure impacts the normal risk-sharing between a utility and its customers. In this docket the City has pointed out that there are unique circumstances with the City's acquisition of Pennichuck. The City states that it must be permitted to seek rates "*that will ensure*" that it will have the cash flow to service the acquisition debt (see response to data request OCA 1-43 attached as Attachment MAN-2). In response to data request Staff 1-54 (Attachment MAN-3) the City witness avers that "The City is not requesting that the Commission regulate the utilities differently than it has prior to the acquisition . . . the City is requesting that the Commission *provide assurance* that the cost of accomplishing the transaction will be recognized in the ratemaking process." Staff would suggest that the City's request to be provided assurance of its ability to cover its costs is incompatible with the normal risk-sharing in regulated utilities where shareholders are provided **an opportunity** to earn a fair return on investment, not an assurance. The City's request for an RSF is an example of this risk-shifting, and is evidence that the City is, contrary to its assertions, requesting that the Commission regulate the three utilities differently than it has under current ownership. Further, it is clear in its response to data request Staff 2-1 (Attachment MAN-4) that the City has no intention of risking any of its own capital in its utilities. The witness states "the City is requesting the establishment of a rate stabilization fund that will provide a form of longer term working capital to address circumstances *that might leave the City in a position where it would otherwise have to finance the utilities' operations with outside funds.*" Significantly, however, where the City would benefit from the application of traditional regulation, it is willing to accept it. This can be seen in the response to Staff data request 2-12 (Attachment MAN-5). When queried regarding the inclusion of an income tax gross-up in the schedules that illustrate the pro-forma revenue requirements for the utility subsidiaries under City ownership, when the City has indicated that Pennichuck Corporation will pay no income taxes for at least the first ten years, the response given is "The federal and state income tax of 60.39% is part of the *traditional ratemaking model* as reflected on Schedule A. *Consistent with Commission practice*, the tax is calculated based on each utility's net income."

Q. What are Staff's observations regarding what Staff sees as inconsistencies in the City's proposals for rate treatment going forward?

A. Staff believes that, while the structure of the proposed merger maintains the utility subsidiaries within the jurisdiction of this Commission, a number of the City's requests in this proceeding would, if approved, go a long way toward reducing the effectiveness of Commission regulation. Once again, it is Staff's view that if Nashua wishes to own and operate regulated public utilities that serve over 11,000 customers outside City boundaries, it should be subject to the same risks and rewards as other owners of public utilities. These risks and rewards are embodied in Title 34 Public Utilities, and the Commission is charged with implementing that title. The Commission must continue to balance the interests of the utility's shareholders and its customers, not provide assurances that the shareholders will always be protected from operating and financial risk.

Q. You indicate that the City expects future utility rates to include a gross-up for income tax, even when the corporate parent is anticipated to have no tax liability for many years. What is the Staff's position on this issue?

A. Staff uses this issue as an example of inconsistency in the City's requests for regulatory treatment going forward, and how that inconsistency shifts risk away from the City and on to customers. Specifically with respect to income taxes, if the City is relying on income taxes in its rates to comprise part of the cash flow needed to satisfy acquisition debt service obligation, perhaps it makes more sense to simply omit the income tax component from rates and increase the CBFRR component. The Commission has in the past, in rate cases for smaller utilities not expected to incur tax liability and not a part of a consolidated entity for tax purposes, denied recovery of income tax in rates. However, the City does make the point in discovery response Merrimack Tech 2-2 (Attachment MAN-6) that typical income tax accounting for consolidated entities such as Pennichuck involves calculating tax liability for each subsidiary individually, and providing payments to the corporate parent in proportion to the stand-alone tax liability, or receiving payments for contribution of a net loss to the consolidated entity. On balance, therefore, Staff would suggest maintaining the current procedure, permit the utilities to continue to recover income taxes in rates on a proforma basis, and avoid the potential for altering the assigned CBFRR for each utility in the future, based on changes which may or may not occur in the tax liability of Pennichuck Corporation.

Q. Are there any other aspects of this proposal that concern Staff?

A. Yes. By assigning shares of the City's bond obligation to each utility, the City is requesting that the Commission approve a ratemaking structure that includes revenues to be devoted to repayment of that bond obligation. Immediately post-merger, the City intends to go forward with the rates currently in place for the three utilities[8], and the City believes those rates are adequate based on an anticipated interest rate of 6.5% for the acquisition bonds. Staff is concerned that, if the City is able to obtain a lower rate, there is no mechanism in place to pass savings on to customers and lower customer rates accordingly[9]. The most recent estimate of an interest rate for the bonds is 5.7%[10]. Further, the City asserts there is no Commission oversight over a potential refinance of those bonds. See response to Staff 2-15, Attachment MAN-9. The City will be seeking bonds which will be subject to optional redemption at par any time ten years after

[8] The City has indicated it plans to seek new rates for customers of PEU in 2013, an anticipated increase of 20%.
[9] The City seeks Commission approval for this proposed merger first, and then will seek financing. The City's response to data request Staff 2-13 (attached as Attachment MAN-7) makes it clear that the City is requesting the Commission's approval without knowing what the final interest rate on the acquisition debt will be.
[10] See the response to data request OCA Tech 1-3, Attachment MAN-8.

issuance. There is nothing in this filing that commits the City to immediately pass along potential reduced bond costs to customers if the bonds are replaced with less expensive debt. If the Commission is going to approve this merger (and the acquisition premiums which are necessary for it to occur), Staff believes it is appropriate for the Commission to have full regulatory authority over all costs which are (or may be) passed on to customers. The City's interest in ensuring adequate cash flow for bond service should not trump cost of service regulation to such an extent that customers would not benefit from reduced costs.

Q. What does the Staff recommend to address the issue of risk-shifting in this proposal?

A. In addition to eliminating the establishment of an RSF with ratepayer funds, Staff believes the most effective way to address the shifting of risk is to consolidate the rates of all three companies into a single tariff.

Q. How does the consolidation of rates address the issue of risk-shifting?

A. It addresses the issue of risk-shifting by reducing the rates of PEU and PAC customers. These customers are paying higher rates than PWW customers now and, not being Nashua residents, will not derive any of the claimed benefits of the acquisition of Pennichuck by Nashua. They will not share in the ownership of Pennichuck Corporation and its five operating subsidiaries, will not share in the "control" of their water resources, will not share in the ownership of watershed lands. They will be assisting Nashua in acquiring Pennichuck, however, by contributing to an acquisition premium which negates the savings in corporate overhead expense. And another 20% increase in rates is proposed for PEU customers in two years.

Q. Won't the consolidation of the rates of all three companies result in an increase in rates for PWW customers?

A. Not necessarily. The proposed acquisition bond issue can be reduced by $10 million by eliminating the inappropriate recovery of the $5 million in eminent domain costs the City incurred, and the $5 million RSF. Now the bond issue becomes $147 million, and at an interest rate of 5.7% instead of 6.5% the annual principal and interest payments are reduced by about $1.6 million. On an average basis, this represents about $214 annually for every customer of PEU and PAC with no change to PWW rates at all.

Q. Would PEU and PAC customers see rate reductions of this amount if the rates of the three utility subsidiaries were consolidated?

A. Staff calculates the $214 figure simply to illustrate the magnitude of the total dollars that are available to consolidate rates of the three utilities. While PWW and PAC have just completed rate cases in 2011, the last rate case for PEU was completed in 2008, using a 2006 test year. See *Pennichuck East Utility, Inc.*, 93 NH PUC 161 (2008). Staff would support a consolidation of rates that included appropriate consideration of capital invested in PEU since its last test year.

Q. Wouldn't a Cost of Service Study be needed to accurately consolidate the rates of the three utility subsidiaries?

A. Yes. A study should be performed to appropriately allocate costs among the various rate classes in order to combine the three utilities into a single tariff. Staff recommends that as part of its order in this docket, the Commission direct the three utilities to make a filing within 90 days of the closing of the merger proposing a single consolidated tariff for the utility subsidiaries.

Q. Please summarize the Staff's recommendations.

A. Staff recommends the Commission approve the acquisition of Pennichuck by the City of Nashua, with conditions. Those conditions are no recovery through utility rates of the City's costs to prosecute the eminent domain case; denial of the establishment of an RSF out of ratepayer funds, and if the City establishes one with its own funds, no inclusion of it in rate base; consolidate the rates of the three utilities in order to further address the issue of risk-shifting; and the Commission retains jurisdiction over all costs to be charged to customers through rates, including the level of costs representing the City's acquisition debt, now and any time into the future.

Q. Does this conclude your testimony?

A. Yes it does.