

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

January 12, 2006 - 10:12 a.m.
Concord, New Hampshire

RE: **DW 05-072**
PENNICHUCK EAST UTILITY, INC.:
Notice of intent to file rate schedules.

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

Diane Bateman, Clerk

APPEARANCES: **Reptg. Pennichuck East Utility, Inc.:**
Sarah B. Knowlton, Esq.

Reptg. Residential Ratepayers:
F. Anne Ross, Esq., Consumer Advocate
Office of Consumer Advocate

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

Court Reporter: Steven E. Patnaude, CCR

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I N D E X

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 DONALD L. WARE
 (Added @ Page 26) **JAYSON P. LaFLAMME**
 (Added @ Page 26) **JAMES L. LENIHAN**

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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning.

We'll open the hearing in docket DW 05-072, regarding Pennichuck East. On May 20th, Pennichuck East filed petitions for increases in permanent rates and temporary rates. And, on June 16th, the Commission issued an order suspending the tariffs, scheduling a prehearing conference and a temporary rate hearing. Subsequently, on July 8th, a secretarial letter was issued setting forth the procedural schedule for investigation of permanent rates. On September 9, an order was issued approving a settlement agreement regarding the temporary rates. And, on January 6th, a settlement agreement was submitted with respect to permanent rates.

Can we take appearances please.

MS. KNOWLTON: Good morning, Chairman Getz, Commissioner Morrison, and Commissioner Below, welcome to the Commission.

CMSR. BELOW: Thank you.

MS. KNOWLTON: My name is Sarah Knowlton, and I'm an attorney with the law firm of McLane, Graf, Raulerson & Middleton. And, I'm here today on behalf of Pennichuck East Utility, Inc. And, to my right is Bonalyn Hartley, who is the Vice President for

1 Administration for Pennichuck, and behind me is Donald
2 Ware, who is the Senior Vice President for Operations and
3 the Chief Engineer for the Company.

4 **CHAIRMAN GETZ:** Good morning.

5 **CMSR. MORRISON:** Good morning.

6 **CMSR. BELOW:** Good morning.

7 **MS. ROSS:** Good morning, Commissioners.
8 Anne Ross, with the Office of Consumer Advocate, and with
9 me today is Steve Merrill.

10 **CMSR. MORRISON:** Good morning.

11 **CHAIRMAN GETZ:** Good morning.

12 **CMSR. BELOW:** Good morning.

13 **MS. THUNBERG:** Good morning,
14 Commissioners. Marcia Thunberg, on behalf of Staff today.
15 And, with me today is Mark Naylor, Jim Lenihan, Doug
16 Brogan, and Jayson LaFlamme. And, it's Staff's intent to
17 have Jayson LaFlamme and Jim Lenihan testifying today.

18 **CHAIRMAN GETZ:** Good morning.

19 **CMSR. MORRISON:** Good morning.

20 **CMSR. BELOW:** Good morning.

21 **CHAIRMAN GETZ:** I'm assuming we have a
22 panel, is that correct?

23 **MS. THUNBERG:** Yes. With agreement
24 between the parties, we'd like to have a presentation of

1 the Company's witnesses first, and then joining halfway
2 through with Staff's witnesses, so that all four of the
3 witnesses will remain up there to facilitate Commission
4 questions.

5 **CHAIRMAN GETZ:** Is there anything then
6 before Ms. Knowlton proceeds?

7 **MS. KNOWLTON:** We have agreed to premark
8 a series of exhibits, starting with -- premark for
9 identification, assuming, you know, that's acceptable to
10 the Commission, starting with Exhibit 5 through
11 Exhibit 14. And, I believe that we've provided each of
12 the Commissioners, the Clerk, and the Stenographer with
13 copies of the exhibits, the proposed exhibits.

14 **CHAIRMAN GETZ:** Do you intend to
15 describe each of these as we go through or is there a
16 separate --

17 **MS. KNOWLTON:** Yes. Yes, we do. We'll
18 go through each of the exhibits in detail with the
19 witnesses.

20 **CHAIRMAN GETZ:** Okay. Then, if you
21 would call your first witness.

22 **MS. KNOWLTON:** Okay. The Company calls
23 Bonalyn Hartley and Donald Ware.

24 (Whereupon **Bonalyn J. Hartley** and **Donald**

[Witness panel: Hartley|Ware]

1 **L. Ware** were duly sworn and cautioned by
2 the Court Reporter.)

3 **BONALYN J. HARTLEY, SWORN**

4 **DONALD L. WARE, SWORN**

5 **DIRECT EXAMINATION**

6 BY MS. KNOWLTON:

7 Q Ms. Hartley, please state your full name for the
8 record.

9 A (Hartley) Bonalyn J. Hartley.

10 Q By whom are you employed?

11 A (Hartley) Pennichuck Corporation and its
12 subsidiaries, Pennichuck Water Works, Pennichuck East
13 Utility, and Pittsfield Aqueduct Company.

14 Q What is your role in Pennichuck East Utility?

15 A (Hartley) I'm Vice President of Administration.

16 Q And, what role did you play relative to the other
17 Pennichuck utilities that you just mentioned?

18 A (Hartley) I serve a -- I serve a similar role as Vice
19 President of Administration. And, under that, under
20 my charge is the customer service functions, the IT,
21 HR, and regulatory matters.

22 Q How long have you been with the Pennichuck companies?

23 A (Hartley) Twenty-six years.

24 Q Mr. Ware, would us please state your full name for

[Witness panel: Hartley|Ware]

1 the record.

2 A (Ware) Donald L. Ware.

3 Q By whom are you employed?

4 A (Ware) I'm also employed by Pennichuck Corporation
5 and the subsidiaries of Pennichuck Water Works,
6 Pennichuck East utility, and Pittsfield Aqueduct
7 Company.

8 Q What is your role at the Pennichuck companies?

9 A (Ware) My role is the Senior Vice President in charge
10 of Operations, and also as Chief Engineer.

11 Q How long have you been employed by Pennichuck?

12 A (Ware) I've been employed by Pennichuck for eleven
13 years.

14 Q Ms. Hartley, if you would start please by giving some
15 -- a brief background on Pennichuck East Utility.

16 A (Hartley) Yes. The Company acquired the Pennichuck
17 East Utilities, as we later called them, in 1998,
18 from actually the Town of Hudson, who, on the same
19 day, acquired them from the former Consumers Water
20 Works, which was out of Portland, Maine at the time.
21 And, we acquired these systems, they were numerous
22 small community water systems, which had been, for
23 whatever reason, and I think at that time the Company
24 just took them over had been combined into three

[Witness panel: Hartley|Ware]

1 different rate groups, A, B, and L, which we will
2 discuss further today. So, A, B, and L, and
3 particularly A and B, is made up of many small water
4 systems. And, at that time, the Commission awarded
5 us, obviously, approval and to take over the systems
6 and to manage them as regulated utilities, which we
7 have since 1998. At the time that we acquired the
8 systems, the Company agreed to a ten percent rate
9 reduction, because there was going to be a
10 significant amount of synergies created by combining
11 these systems under Pennichuck. We were proximately
12 located to the systems. There was going to be,
13 obviously, some savings in management costs,
14 etcetera. So, we recognized that and we said "we'll
15 take a ten percent reduction across the board", that
16 was every customer got a ten percent rate reduction
17 at that time, until we see how these systems operate
18 for, what kind of improvements we're going to need.
19 And, at that time, it worked real well for us in
20 terms of return for numerous years. And, then, as we
21 will get into further discussions, because of the
22 capital improvements and increased expenses, we're
23 here today for a rate increase.

24 Q Mr. Ware, would you identify the communities in which

[Witness panel: Hartley|Ware]

1 Pennichuck East Utility serve customers?

2 A (Ware) Yes. We serve customers in ten different
3 communities with Pennichuck East. We serve customers
4 in Pelham, Londonderry, Litchfield, Sandown, Atkinson
5 Raymond, I don't have the list in front of me, so I
6 have to --

7 Q And is Plaistow the --

8 A (Ware) Yes. And Plaistow. I think that covers all
9 of them.

10 Q And, is there a system in Bow?

11 A (Ware) Yes, there is now a system in Bow. At the
12 time that we acquired the Pennichuck East facilities,
13 there was not one in Bow, but there is one now.

14 Q Ms. Hartley, did the Company make a filing with this
15 Commission seeking a form of rate relief for
16 Pennichuck East Utility?

17 A (Hartley) Yes, we did.

18 Q Okay. And, I'm going to show you a document that I
19 believe you have in front of you, a document that has
20 been marked for identification as "Exhibit 5". Do
21 you see that document?

22 A (Hartley) This would be the original filing? Yes.

23 Q Can you briefly summarize what the Company was
24 seeking in that filing?

[Witness panel: Hartley|Ware]

1 A (Hartley) Yes. At the time of this filing, the
2 Company was seeking a 24.99 percent increase. And,
3 it was our intent at that time to apply that increase
4 equally or to each rate group equally. So, each rate
5 group would have, at that time, been approved or
6 sought for a 24.99 percent increase.

7 Q And, is that, that increase, that proposed increase,
8 described in any prefiled direct testimony that you
9 submitted as part of that initial filing?

10 A (Hartley) Yes.

11 Q And, is that testimony contained in Exhibit 5?

12 A (Hartley) Yes.

13 Q And, was that prepared by you or under your
14 direction?

15 A (Hartley) Yes.

16 Q And, is it accurate to the best of your knowledge?

17 A (Hartley) Yes.

18 Q Okay. And, if you would continue then to summarize
19 the relief that's described in your testimony.

20 A (Hartley) Yes. We were asking, as I said, for a
21 24.99 percent increase, which would have resulted in
22 about \$779,000 of additional revenue from the
23 aggregate of those systems. That would have resulted
24 in a revenue -- proposed revenue requirement of

[Witness panel: Hartley|Ware]

1 \$3,895,000. We went on to discuss in our testimony
2 the need for the rate relief, which was the result of
3 capital improvements, significant capital
4 improvements, the increase in power costs, the
5 increase in property taxes, in chemicals, purchased
6 water, and other items, which -- and also the fact
7 that we had not been in for rate relief for several
8 years. All of these summarized required us to file
9 for this type of increase.

10 Q Mr. Ware, would you please look at what's been marked
11 for identification as "Exhibit 5".

12 A (Ware) Yes.

13 Q Are you familiar with this filing?

14 A (Ware) Yes, I am.

15 Q And, does this filing contain any direct testimony by
16 you?

17 A (Ware) Yes, it does.

18 Q Was that prepared by you or under your direction?

19 A (Ware) It was prepared by myself.

20 Q And, would you summarize your testimony please.

21 A (Ware) Yes. I address primarily the capital
22 improvements that needed to be made in my testimony.
23 Again, for the Commissioners, when we took over the
24 system, the Pennichuck East Utility systems in 1998,

[Witness panel: Hartley|Ware]

1 there was a total of 27 independent water systems
2 serving ten communities, and slightly over 3,600
3 customers. At the time we took over those systems,
4 over half of those systems had major customer service
5 problems. They either had poor water quality,
6 insufficient water quantity, or poor water pressure,
7 or a combination of all the above. So, one of our
8 challenges was to go in and rectify those issues.

9 Over the past seven years, from 1998
10 through 2005, the Company spent slightly over seven
11 and a half million dollars to correct the problems
12 that were out there. And, again, there were numerous
13 types of corrections across all the three customer
14 classes that were talked about, but the primary
15 focus, the most money spent per customer was in the
16 Rate Group A. We spent an average of \$2,200 per
17 customer in Rate Group A, \$858 in capital
18 improvements per customer in Rate Group B, and 1,100
19 -- slightly over \$1,100, \$1,182 in capital
20 improvements in Rate Group L.

21 Q And, is that an average from -- why don't you explain
22 how you calculated that number.

23 A (Ware) Right. What we did was, because each rate
24 group was made up of distinct water systems, we took

[Witness panel: Hartley|Ware]

1 the capital that was invested in the Rate Group A
2 systems, and then divided that by the total number of
3 customers who fell into Rate Group A, and the same
4 for Rate Groups B and L.

5 Q Would you -- Mr. Ware, can you provide the Commission
6 with some specific examples of, you know, significant
7 capital projects that the Company has undertaken in
8 the system since it acquired it in 1998?

9 A (Ware) Yes. Probably some of the more significant
10 ones, we'll cite, for instance, the Green Hills water
11 system, which is a water system serving approximately
12 235 manufactured homes in Raymond. When we took the
13 system over, there was a couple of small wells that
14 fed this area through a small diameter, poor quality
15 plastic, that basically ran everywhere and anywhere,
16 through backyards, no valves, so on and so forth. We
17 typically had a break in that system, on average,
18 about two times a month. And, when we had to shut
19 the system down, because of the lack of valves, we
20 basically very often had to shut down half or all of
21 the water system, in order to effect a repair, had to
22 make -- many of the repairs had to be done by hand,
23 because you couldn't get equipment between the homes
24 where the mains were, so it resulted in extended

[Witness panel: Hartley|Ware]

1 periods of time. Also, at that time, around the
2 1998-1999 genre, MTBE had started to raise its ugly
3 head, and, of all our systems, this particular system
4 was the only one that had MTBE in excess of the
5 current standard, but it was well in excess of it.
6 So, at that stage, we had a water quality problem, we
7 had a water quantity problem, and we had a continuity
8 of water service problem.

9 We worked with the Town of Raymond to
10 attract a CDBG grant for \$750,000, in order to do
11 some work. We also got a SRF loan for \$445,000
12 towards the work that needed to be done. And, on top
13 of that, had to spend additionally, you know, on the
14 order of about another \$700,000 of the Company's
15 money, in order to clean up the problem, which
16 involved, and rarely do you get into this, but you
17 try to look for solutions not to replace the entire
18 system, but there was no -- no choice in this case.
19 So, the entire system was converted over to ductile
20 iron pipes in the street, new services into all the
21 homes, in every one of these homes, the services came
22 in, and there were problems with the services right
23 where they turned into the home, they put a
24 galvanized elbow below each home to turn the water

[Witness panel: Hartley|Ware]

1 from horizontal to vertical. And, on a regular
2 basis, those galvanized elbows were rotting out and
3 creating leaks underneath the homes.

4 So, when the system was done, everybody
5 on every street had a brand-new service all the way
6 into their home, properly heat-traced and insulated.
7 We were having frozen mains and frozen -- frozen
8 services and frozen meters, again, during a cold
9 winter, on the order of two to three a week. So, we
10 took care of that problem. And, we, to take care of
11 the water quality problem, we hooked up to the Town
12 of Raymond and we purchase water on a retail basis
13 from the Town of Raymond for resale. So, that was a
14 major, major effort that took place over about a
15 three year time frame.

16 I guess another significant area was the
17 Town of Litchfield, which has slightly over a
18 thousand customers. When we took it over, it was a
19 system that was growing rapidly. They had tremendous
20 water pressure problems during peak summer usage
21 periods, and even during peak daytime usage periods,
22 in the winter, pressure at the high points would drop
23 significantly, on the order of 50 down to 20 or less
24 pounds per square inch. Also, because of the nature

[Witness panel: Hartley|Ware]

1 of the system that had been designed, which is a
2 constant pressure system and no storage, the pumps
3 would run up and down to meet the needs of the
4 customers to match the demands.

5 That water moving back and forth, and
6 the fact that the underlying supply has a small
7 amount of iron and manganese that coated their mains
8 over the year resulted in constant incidences of
9 colored water to the customers. Constantly going out
10 and attempting to flush the system, but without any
11 gravity storage to flush, we were at the limits of
12 the pumps.

13 So, what did we do? First of all, we
14 upgraded the pumps, to keep the pressure up, and then
15 we went and located a site to construct a tank and
16 constructed a tank. Since that's been done, colored
17 water complaints have dropped to, you know, from
18 literally, you know, tens per week, to effectively
19 none, other than when we have a fire. Water pressure
20 complaints are nonexistent.

21 Q Mr. Ware, can I just interrupt you for a second? You
22 said, "when you have a fire", you mean Pennichuck
23 East has a fire?

24 A (Ware) Right. No. When the Town of Litchfield has a

[Witness panel: Hartley|Ware]

1 fire and uses the fire hydrants.

2 Q Okay.

3 A (Ware) We try not to burn down our facilities.

4 Q Okay. I couldn't help but clarify that. I was
5 concerned.

6 A (Ware) So, again, in the area where a significant
7 amount of money was spent, but there were major
8 problems, you know, from a health and public safety
9 perspective, those things were taken care of.

10 We had numerous, probably the other
11 largest project was the W&E system, which is in
12 Windham, which is a community that I failed to
13 identify when I was talking about the ones that we
14 serve. It's a small system serving 188 homes, again,
15 built by a well developer in the 1960s, horrible
16 water quality, high iron, high manganese, poor water
17 pressure, because the pumping system and the storage
18 that was there was inadequate to get through peak
19 periods of time. We put in a state-of-the-art
20 treatment system to take care of the iron, the
21 manganese, the hardness, replaced some of the poor
22 quality distribution mains, put in pumps and storage
23 that would adequately match the demand in the system,
24 and took care of the problems that were out there.

[Witness panel: Hartley|Ware]

1 Q Ms. Hartley, did these types of capital improvements
2 play any driving force in the Company's need to file
3 this request for rate relief?

4 A (Hartley) Of course it did. Obviously, they are
5 significant improvements, at tremendous cost to the
6 Company, and needed. I echo Mr. Ware's efforts in
7 this area, because I told you earlier I'm responsible
8 for customer service, we were just deluged with calls
9 from Litchfield about poor water quality issues, and
10 in Raymond about frozen services. And, it got to the
11 point, you know, we were actually, as management, out
12 in people's kitchens looking at laundry. So, I have
13 to tell you how happy we were that they have been
14 repaired and fixed and we've made those significant
15 improvements, because, actually, this past year it
16 was quite quiet. And, so, I think, although it's
17 taken us some time, and a lot of effort, and a lot of
18 hand-holding with our customers, we're very satisfied
19 that we've done a good job. And, that's in the
20 proof, because we're not getting as many significant
21 calls now.

22 So, I think -- I don't think, I know we
23 have achieved our goals in those community systems.
24 There's always more work to be done, but the critical

[Witness panel: Hartley|Ware]

1 areas have been addressed. And, I believe the
2 customers have been well served.

3 Q Ms. Hartley, as part of the filing that the Company
4 has made in this case, did the Company conduct any
5 kind of analysis or have conducted any kind of
6 analysis related to depreciation?

7 A (Hartley) Yes, we did.

8 Q What did you do?

9 A (Hartley) We used an expert witness to provide a
10 study for the depreciation rates that should be
11 allocable to the various plant in the Pennichuck East
12 systems. That company is known as "AUS", and we
13 utilized a Mr. Earl Robinson.

14 Q And, you should have in front of you a document
15 that's been marked for identification as "Exhibit 6".
16 Do you have that there?

17 A (Hartley) Yes, I do.

18 Q And, would you identify that document please?

19 A (Hartley) Yes. This is the document that was
20 provided to the Commission I believe in the July time
21 frame, 2005.

22 Q Actually, if you would look at the exhibit, look at
23 Exhibit 6, and what date does --

24 A (Hartley) Oh, September. Sorry.

[Witness panel: Hartley|Ware]

1 Q Okay. And, was there a document that was filed in
2 July --

3 A (Hartley) Yes.

4 Q -- related to depreciation?

5 A (Hartley) Yes. There was an original document
6 provided. And, as a result of some findings by both
7 Staff and the Company, we updated that document for
8 certain items that needed to be reclassified in
9 different plant accounts. And, the September 15th
10 document you have in front of you is the result of
11 that.

12 Q Okay. And, how was it that the Staff of the
13 Commission made findings? What was the process that
14 resulted in those findings that caused you to update
15 the depreciation study?

16 A (Hartley) We provided the study to the Staff in July,
17 and the Staff has a in-house expertise, Mr. Jim
18 Cunningham reviewed the Company's study, along with
19 Staff, and provided some feedback to us through data
20 requests. And, at that time, we agreed with, and
21 through our audit, the PUC audit, there were certain
22 findings, not real significant in some nature, and
23 others more significant, just basically
24 classifications in small matters, and which resulted

[Witness panel: Hartley|Ware]

1 in updating the study.

2 Q And, as a result of that audit, did the Company agree
3 to make certain adjustments?

4 A (Hartley) Yes.

5 **CHAIRMAN GETZ:** Just a second,
6 Ms. Knowlton, just I want to make sure for, technically,
7 for getting this evidence in the record. You're going to
8 describe and introduce all of Exhibits 5 through 14 in
9 your direct?

10 **MS. KNOWLTON:** Between Staff and the --
11 the Staff's witnesses and the Company's witnesses, yes.

12 **CHAIRMAN GETZ:** Okay. And, the Clerk
13 has all the documents and all the descriptions of the
14 documents?

15 **MS. BATEMAN:** Yes.

16 **CHAIRMAN GETZ:** Okay. Then, we'll just
17 note for the record that we'll mark for identification
18 "Exhibits 5" through "14" as will be described in direct.

19 (The documents, as to be described, were
20 herewith marked as **Exhibits 5** through
21 **14**, respectively, for identification.)

22 **MS. KNOWLTON:** Thank you.

23 BY MS. KNOWLTON:

24 Q Ms. Hartley, at some point, did the Company seek

[Witness panel: Hartley|Ware]

1 temporary rate relief in this case?

2 A (Hartley) Yes, we did. At the time of the permanent
3 filing, we had -- we had asked for temporary rate
4 relief as part of that.

5 Q Was that granted?

6 A (Hartley) Yes, it was.

7 Q At what rate?

8 A (Hartley) Nine percent.

9 Q A 9 percent increase over the Company's current
10 rates?

11 A (Hartley) Yes. And, it became -- I believe temporary
12 rates were awarded in September, but the effective
13 date was June 16th of 2005.

14 Q Okay. And, after the temporary rate hearing, an
15 order approving temporary rates, did the Company
16 participate in discovery with the Staff?

17 A (Hartley) Yes.

18 Q And the Office of Consumer Advocate?

19 A (Hartley) Yes. Both parties.

20 Q And, did the Company also participate in any
21 settlement discussions with the Staff and Office of
22 Consumer Advocate?

23 A (Hartley) Yes.

24 Q And, did that, did those discussions result in a

[Witness panel: Hartley|Ware]

1 settlement agreement to which the Company is a party?

2 A (Hartley) Yes.

3 Q If you would look at the document that's been marked
4 for identification as "Exhibit 7", is that the
5 Settlement Agreement to which the Company agreed?

6 A (Hartley) Yes.

7 Q Would you please give a brief overview of that
8 Settlement Agreement.

9 A (Hartley) Yes. As I stated previously, the Company
10 had requested a 24.99 percent increase for permanent
11 rates. Staff and the Company and OCA agreed on a
12 24.26 percent overall increase in revenues based on
13 the test year net operating income requirement of
14 \$761,796. This agreed to increase results in a
15 revenue requirement of \$3,871,953. It was also
16 agreed, through much discussion with the OCA and
17 Staff, that at this time it made sense to consolidate
18 the three rate groups.

19 Q Is that the A, B, and the L?

20 A (Hartley) Yes. And, there will be further discussion
21 about that. And, I believe the Staff has a witness
22 who has the history on those rate groups, and why
23 they -- they, as well as the OCA, supported
24 consolidation of those rate groups at this time. So,

[Witness panel: Hartley|Ware]

1 this increase of 24.26 percent will be applied to all
2 the rate groups, but at a consolidated rate. And,
3 also, as part of this Settlement Agreement, the
4 Litchfield customers had embedded in their rates a
5 fire protection charge, which we have also identified
6 now as a separate fixed charge going forward.

7 Now, we all realize that a cost of
8 service study would be ideal in this situation,
9 however, there wasn't going to be time to facilitate
10 that. So, the Company has agreed, before the next
11 filing of its next case, that we will provide a cost
12 of service study to verify all of the different rates
13 in the different customer classifications.

14 Q That will be before filing the next, the next rate
15 case?

16 A (Hartley) Yes, it would.

17 Q Okay. And, I think, at that point, Ms. Hartley, I'd
18 like to stop you and --

19 A (Hartley) Sure.

20 Q -- let counsel for the Staff bring her witnesses
21 forward to testify and join you on the panel.

22 A (Hartley) Okay.

23 **MS. THUNBERG:** At this time, Staff
24 wishes to add Jayson LaFlamme and Jim Lenihan to the

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 witness panel.

2 (Whereupon **Jayson P. LaFlamme** and **James**
3 **L. Lenihan** were duly sworn and cautioned
4 by the Court Reporter and joined the
5 witness panel.)

6 **JAYSON P. LaFLAMME, SWORN**

7 **JAMES L. LENIHAN, SWORN**

8 **DIRECT EXAMINATION**

9 BY MS. THUNBERG:

10 Q For the record, Mr. LaFlamme, if you could please
11 state your full name and business address.

12 A (LaFlamme) Jayson LaFlamme. I work for the New
13 Hampshire Public Utilities Commission, the Gas and
14 Water Division. The address is 21 South Fruit
15 Street, Suite 10, Concord, New Hampshire.

16 Q And, could you please explain your position with the
17 Commission.

18 A (LaFlamme) I work as an Analyst in the Gas and Water
19 Division, mostly reviewing and examining the
20 financial aspects of various filings that come before
21 the Commission from water and sewer utilities.

22 Q And, can you please explain your involvement with
23 this docket?

24 A (LaFlamme) Yes. My role in this docket was to

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 examine the proposed revenue requirement that was
2 filed for by the Company.

3 Q Prior to today, have you ever testified before the
4 Commission?

5 A (LaFlamme) Yes.

6 Q And, has that testimony been within your area of
7 expertise that you just described?

8 A (LaFlamme) Yes, it has.

9 Q Mr. Lenihan, can I please have you state your name
10 and address for the record?

11 A (Lenihan) My name is James L. Lenihan. I'm a Utility
12 Analyst also with the Gas and Water Division under
13 the New Hampshire Public Utilities Commission, at 21
14 South Fruit Street.

15 Q And, as an analyst for the Commission, could you
16 please just describe what your responsibilities are.

17 A (Lenihan) My duties and responsibilities include a
18 review of rate petitions that come before the
19 Commission, new franchise requests, special
20 contracts, basic financial/rate matters that relate
21 to petitions for revenue increases from water and gas
22 utilities -- water and sewer utilities.

23 Q Thank you. Prior to today, have you testified before
24 this Commission, Mr. Lenihan?

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Lenihan) I have.

2 Q And, has that testimony been within your area of
3 expertise that you just described?

4 A (Lenihan) It has.

5 Q And, with respect to this docket, could you just
6 summarize what review you performed?

7 A (Lenihan) With regard to this particular proceeding,
8 I paid close attention to the manner in which the
9 Petitioner was proposing to recover their increase in
10 annual revenues, specifically, the Company initially
11 proposed to increase the rates to the three existing
12 groups by an amount equal to the overall revenue
13 increase.

14 Q And, I have a question directed to both you,
15 Mr. LaFlamme, and Mr. Lenihan. And, this is
16 regarding what's been premarked as "Exhibits 8", "9"
17 and "10". And, Mr. Lenihan, I believe you have your
18 hand on them. And, if I could just have you identify
19 them for the record please.

20 A (Lenihan) Exhibit 8 is data requests and responses to
21 Pennichuck in reference to this particular
22 proceeding. Exhibit 9 is data requests, this is
23 Staff Set Number 4. And, Exhibit 10 are data
24 requests and responses regarding the fifth set of

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 data requests to the Company.

2 Q Thank you for identifying those. For Exhibits 8, 9
3 and 10, did you review those as part of your review
4 of this docket?

5 A (Lenihan) Yes, I have reviewed the -- not only
6 reviewed, but participated in asking some of the data
7 requests.

8 Q And, is that the same for you, Mr. LaFlamme?

9 A (LaFlamme) Yes.

10 Q And, now, Mr. LaFlamme, do you have what's been
11 marked for identification and described as "Exhibit
12 7", the Settlement Agreement, before you?

13 A (LaFlamme) Yes, I do.

14 Q And, I'd like to have you turn to Page 2 of that
15 Agreement, to the section regarding "Revenue
16 Requirement". And, summarize for the Commission how
17 Staff and OCA and the Company arrived at the revenue
18 requirement recommended.

19 A (LaFlamme) Yes. The Company's original filing, back
20 in May of 2005, proposed an increase in their revenue
21 requirement of 24.99 percent. In that filing, the
22 Company indicated that they had an ongoing
23 depreciation study, which was referred to earlier in
24 testimony. The results of that depreciation study

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 had not -- had not been completed and was not
2 included in the revenue requirement proposed by the
3 Company in their original filing. Subsequent, as
4 indicated earlier, subsequent to the Company's
5 original filing, the depreciation study was
6 submitted, and the results of that depreciation study
7 would have added additional expense in the Company's
8 filing that -- which would have resulted in a
9 proposed revenue increase of 29.61 percent.

10 The Staff and OCA conducted extensive
11 discovery, including the submission of, all told,
12 five sets of data requests. And, then, subsequent to
13 that, the Company, OCA, and Staff entered into
14 negotiations with the Company, and which resulted in
15 an agreement by the parties of a 24.26 overall
16 increase in the Company's revenue requirement.

17 Q Mr. Lenihan, I'd like to turn to you and ask do you
18 have a copy of Exhibit 7, the Settlement Agreement,
19 before you?

20 A (Lenihan) I have.

21 Q And, can I have you turn to Page 4 please, the
22 section regarding "Consolidation of Rate Design"?

23 A (Lenihan) I have that.

24 Q And, can you please give the Commission a history

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 lesson, I guess, of this water system, where it's
2 been with respect to rates and past rate cases?
3 A (Lenihan) Yes. The customers currently served by
4 Pennichuck East were previously customers of
5 Consumers Water Company. And, Consumers served not
6 only these customers now that Pennichuck serves, but
7 they served about 4,000 customers in the Town of
8 Hudson. The Town of Hudson municipalized and
9 Consumers no longer provided service to Hudson. So,
10 there was a number of -- there were a number of
11 satellite systems and customers in the outlying areas
12 from the Town of Hudson, purchased by Pennichuck, I
13 believe, in 1998, somewhere around that, that time.
14 So, Consumers was out of the picture. Pennichuck
15 picked up the satellite systems and began providing
16 service.

17 Now, the rates that are currently in
18 effect for the customers served by Pennichuck go back
19 to a proceeding back in 1989/90, 89-224. And, at
20 that time, I think it was Southern, which preceded
21 Consumers, requested a consolidated rate for all of
22 its Hudson, Litchfield, and all the satellite systems
23 in a particular -- when it came in for a particular
24 rate increase. Well, at that time, it was determined

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 by Commission order that, rather than move toward a
2 consolidated rate at that time, to gradually move in
3 that direction. And, as a result of that, there was
4 an establishment of three rates, rate groups. They
5 were basically the "A" group, which was referenced in
6 here, the "B", and the "Litchfield" group.

7 And, as a result of that proceeding and
8 that docket, a determination was made on the basis of
9 a stand-alone rate versus an average rate for
10 everybody that was being provided service by
11 Consumers. That customers in satellite systems would
12 fall into one of basically two groups, the higher and
13 the lower group. Again, the reason for that was to
14 gradually move toward a consolidated rate.

15 Q Mr. Lenihan, could I just ask you a clarifying
16 question. With the determination of a Group A and a
17 Group B, I guess, groups of customers, this was not
18 based on a cost of service study, was it?

19 A (Lenihan) That's correct. It was based on an
20 analysis of an overall company average versus where
21 the revenue requirement for a particular system would
22 end up, with the increase of about 23 percent at the
23 time, it was just an analysis of where these systems
24 would fall relative to an overall average for

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 Consumers.

2 In addition to the two groups, there was
3 another group called the "L Group", which was
4 customers -- which were the customers served in
5 Litchfield. And, the difference between the -- the
6 reason for the separate rate group for Litchfield was
7 that that particular group included fire protection,
8 and that was fire protection that was being provided
9 to that group, and not to the other A or B groups.
10 So, there were three groups, A, B, and L.

11 Now, when the Company came in for this
12 rate proceeding, they had proposed a revenue increase
13 of approximately 24, almost 25 percent. And, the
14 Company proposed to apply to the three rate groups
15 equally a percentage equal to the overall revenue
16 increase. And, after reviewing the petition, after I
17 had reviewed the petition, I began to question the
18 rationale for maintaining the differential of the
19 three groups. And, the major reason is that, as a
20 result -- one of the major reasons for the
21 differential in the rates was there were a number of
22 customers in Hudson that were served at the time
23 these groups were set up. Those customers are no
24 longer there. They're gone out of the picture.

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 So, what -- it was my recommendation
2 then, on the basis of a significant change in
3 circumstances, that it would be an appropriate time
4 to move toward a consolidated rate; one rate that is
5 for all of the customers being served by Pennichuck.
6 Parties in negotiations agreed to recommend that as
7 part of this stipulation.

8 A number of things have -- well, a
9 couple of things that I just want to bring to your
10 attention have occurred since the three rate groups
11 were established back in '91. When Pennichuck, and I
12 think Ms. Hartley mentioned this earlier, when
13 Pennichuck took the systems over in '98, all of the
14 rates were reduced by ten percent. And, since '98,
15 there has been -- there have been no adjustments to
16 the rates or the revenues for any of its systems.
17 So, the rates basically have been in effect for the
18 three rate groups for about ten years.

19 In 1995, prior to Pennichuck taking the
20 system over, there was a rate proceeding that
21 Consumers, I believe it was Consumers, came in for a
22 23 percent increase in revenue. This is for the
23 Hudson and all of the systems, satellite systems
24 served. And, in that proceeding, Consumers prepared

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 a cost of service study. The cost of service study
2 recommended that, at the time, there was a -- there
3 still exists a 30 percent differential in rates
4 between the A and B group, that that cost of service
5 study recommended that the differential be reduced to
6 15 percent.

7 Well, upon review and consideration by
8 the Commission, the order in that proceeding
9 established that, for reasons I mentioned earlier,
10 there was 4,000 or so customers in Hudson, that there
11 wasn't sufficient justification to move or to lessen
12 the differential of the two rates, that they should
13 maintain the differential the way it is.

14 Again, 4,000 customers that were the --
15 that was the basis for establishing the differential
16 are no longer there. And, therefore, that's why the
17 movement toward a consolidated rate is being
18 recommended in this proceeding.

19 Q Mr. Lenihan, could I ask you a couple of pointed
20 questions with respect to the A group?

21 A (Lenihan) Yes.

22 Q Moving toward a consolidated rate, is it true that
23 the rate increase for the A, B, and L group is not
24 the same percentage?

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Lenihan) That's right.

2 Q And, is it also true that the A group will receive
3 the higher percentage of a rate increase, compared to
4 B and L?

5 A (Lenihan) That is correct.

6 Q And, the Staff feels that is justified? And, if so,
7 how?

8 A (Lenihan) I would say it's justified. Again, first
9 of all, these rates have been in effect for ten
10 years. And, it's my understanding that the Rate
11 Group A has been the recipient of quite a bit of
12 capital improvements. And, it wouldn't be
13 unreasonable that that rate group would see a higher
14 increase than the other groups.

15 Q Can I ask you about small systems and the ability to
16 absorb capital investment and still maintain some
17 reasonableness in the rates? Is there any benefits
18 to the small systems -- sorry, is there any benefits
19 to these small systems being in a consolidated group?

20 A (Lenihan) Yes. There are benefits to being in one,
21 in one rate group. And, specifically -- And,
22 specifically, there are -- there are requirements now
23 by the Department of Environmental Services and EPA
24 require upgrades to a system's facilities. For a

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 number of years, in reviewing these cases, in 89-224,
2 I think there was another case 97-058, and there was
3 opposition by Staff to going to a consolidated rate,
4 because it was considered to be a significant
5 departure from cost-based rates.

6 And, this witness, as the result of the
7 growth, the economic growth and the proliferation of
8 small water systems, I've come to the conclusion
9 that, although the rates, and it can be argued
10 whether they're cost-based, in that all the revenue
11 required to provide all the services are included in
12 the rates, the identification of a specific rate for
13 a specific satellite system would be an
14 administrative nightmare.

15 Now, Mr. Ware mentioned earlier, and
16 mentioned in his testimony, I think they serve
17 approximately 27, almost 30 -- customers in 30
18 systems in about 10 or 11 towns. So, to actually go
19 to a cost-based rate for each and every one of those
20 systems would require quite a bit of resources, not
21 only there, but, you know, on the part of the
22 Commission.

23 But, if one is to follow a pure
24 cost-based approach to the rates, there would have to

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 be recognition of and I would call them "catastrophic
2 failures" in a particular system and increases to
3 those rates that would reflect the actual cost of
4 putting in a new well, maybe more than a new well,
5 which could cause the rates to go up considerably.
6 This was a consideration in docket 97-058, in which
7 the Commission referenced that, although there is a
8 differential in the rates, that there is a particular
9 zone in which anything beyond that would just be too
10 much of a burden on the customers.

11 I think there's a tremendous benefit to
12 the customers, because, in this particular rate group
13 today, you'll see a 40 -- a 44 percent increase.
14 But, with 6,000 customers sharing the costs and the
15 improvements and the updates -- the upgrades, and all
16 other costs associated with providing water service,
17 they shouldn't be seeing these increases. Again,
18 these rates have been in effect for almost ten years,
19 for over ten years, and that's in large part why
20 we're seeing a recommended increase in the magnitude
21 of 40 -- 30 percent.

22 So, I think that was a long-winded
23 answer to "is there any benefits?" I think there are
24 tremendous benefits to the customers in the long run

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 by sharing all of these costs.

2 Q Mr. Lenihan, with respect to Group A, are you
3 familiar with the economic -- I guess I'm looking for
4 the income level of customers in Group A? And, if
5 you are aware of the income level, how that factored
6 into your recommendation to go with a consolidated
7 rate?

8 A (Lenihan) I am not familiar with the economic income
9 level of any of the groups actually.

10 Q Are some groups, within the customers in Group A, are
11 they low income, to your knowledge?

12 A (Lenihan) I think, well, Mr. Ware mentioned the
13 improvements to Green Hills, I believe that's in
14 Group A, and that is a mobile home park. I suspect
15 the income levels there are not as high as those in
16 Bedford. So, I would say, yes, there's a
17 differential, but I'm not familiar with all of the --
18 it's been a while since I've been to all of the
19 systems.

20 Q Okay. I'll ask my question of a different panelist
21 later.

22 **CHAIRMAN GETZ:** Excuse me, Ms. Thunberg.
23 While we're on Exhibit 7, the Settlement Agreement, and in
24 Pages 5 and 6, Mr. Lenihan, there is the reference, at the

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 bottom of Page 5, to the current average residential
2 customers, what they're paying. And, then, on Page 6,
3 there's a reference to what the increases will be to the
4 average residential customer rates for A, B, and L. But I
5 didn't see a number for what the -- maybe I overlooked it
6 somewhere, what the consolidated average residential rate
7 would be pursuant to the Settlement. Do you have that
8 number?

9 **MS. THUNBERG:** It is the Company and
10 Staff's intent to present that rate impact information
11 through Bonnie Hartley, after Mr. Lenihan was giving a
12 background history of the rate, if that would be helpful?

13 **CHAIRMAN GETZ:** That's fine.

14 **MS. THUNBERG:** Also, Staff would like to
15 just ask a question of Mr. LaFlamme, while we're on Page 6
16 of Exhibit 7.

17 BY MS. THUNBERG:

18 Q Mr. LaFlamme or Mr. Lenihan, does Staff propose any
19 corrections to some of the numbers on Page 11 -- I'm
20 sorry, page 6 of 11?

21 A (Lenihan) Yes. I'd call your attention, if I may, to
22 Page 6 of the Settlement Agreement. The penultimate
23 sentence of the first paragraph reads "\$87.05". That
24 should be "\$108.12".

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 Q And, that's line eight of the first paragraph?

2 A (Lenihan) Correct. And, the next paragraph, the
3 fourth line down, where it says "34.6%", that should
4 be "38.7%".

5 Q Thank you. Are these the only corrections to the
6 Settlement Agreement that Staff proposes?

7 A (Lenihan) That is the only correction.

8 Q Okay. Yes, Mr. Lenihan?

9 A (Lenihan) I just want to go on a little further, and
10 I'll keep it brief. What is being recommended in the
11 Settlement Agreement is a consolidated rate. Now, as
12 I said earlier, there was an A rate, B rate, and a
13 Litchfield rate. What's being recommended is one
14 rate, but the caveat is the Litchfield customers,
15 since they don't pay a municipal fire protection
16 rate, that is embedded in their water rates, there
17 will be a different rate for Litchfield. And, that
18 different rate is a reflection of the cost of the
19 fire service. And, the numbers I corrected on Page 6
20 reflect the fire -- the increase to that portion of
21 the Litchfield rates as a result of this --
22 Litchfield fire rates as a result of this proceeding.
23 So, it's really a consolidated rate, with an addition
24 for the Litchfield customers for the fire protection

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 service. Those percentages are -- the increase
2 percentages the Chairman was referencing are on the
3 second paragraph there, in line 3, and further on in
4 the -- on that page.

5 I'll go on. The Stipulation recommends
6 that a cost of service study be performed by
7 Pennichuck for its next rate proceeding. And, the
8 paragraph in the middle of Page 7 represents the
9 results of the depreciation study filed by the
10 Company and subsequent discussions by Staff.

11 **MS. THUNBERG:** I think at this point it
12 would be appropriate to have the questioning go back to
13 Ms. Hartley, is that correct, to turn it over?

14 **MS. KNOWLTON:** Yes.

15 **MS. THUNBERG:** Thank you.

16 BY MS. KNOWLTON:

17 Q Ms. Hartley, are you agreeable or is the Company
18 agreeable to the changes that Mr. Lenihan identified
19 to the Settlement Agreement?

20 A (Hartley) Yes, we are.

21 Q I just want to fill out some more information about
22 the currently existing three rate groups, the A, B,
23 and the L. Would you tell us please how many
24 customers are in each of those?

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Hartley) Yes. As of the end of the test year, which
2 was 12/31/2004, there were 1,530 customers in the L
3 group, 878 customers in the A group, and 2,066
4 customers in the B group, a total of 4,474 customers.

5 Q And, all of the customers -- are all of the customers
6 that are in L in Litchfield?

7 A (Hartley) Yes.

8 Q And, are there customers in both the A group and the
9 B group that reside in the same town or municipality?

10 A (Hartley) Yes.

11 Q Would you give an example of that?

12 A (Hartley) I believe it is Windham that has actually
13 customers in two different systems that are located
14 in Windham, at two different rates; one is at the A
15 rate and one is at the B rate. And, as we grow and
16 take on more small satellite community systems, that
17 becomes more and more prevalent as we look out to the
18 future, so it's more complex, in terms of keeping the
19 rate separate.

20 Q If you would turn your attention to what's been
21 marked as "Exhibit 11" for purposes of
22 identification.

23 A (Hartley) Yes.

24 Q Is this a document that's familiar to you?

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Hartley) Yes.

2 Q Did you prepare it?

3 A (Hartley) Yes, I did.

4 Q What is it?

5 A (Hartley) What it is is a "Notice to Customers", and
6 I provided this so that the Commissioners, as well as
7 the Staff, could readily see the impact of the
8 consolidated rate and what they will look like for
9 each of the meter sizes and the classifications of
10 customers, meaning the General-Metered customers, as
11 well as the Fire Protection customers, as well as our
12 Private Hydrant customers, and our Litchfield Private
13 Hydrant charge, which has been discussed by
14 Mr. Lenihan.

15 This particular notice to customers,
16 although this is a draft form, shows you what
17 eventually, if approved by the Commission, will be
18 mailed to each customer upon receiving their first
19 bill. And, we also keep these in house for future
20 customers, all new customers receive a rate sheet
21 upon applying for service or being transferred to a
22 new account.

23 So, I thought this would be helpful to
24 the Commissioners to view very readily what the new

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 consolidated rate is going to look like, and also
2 what the customers will receive in a presentation
3 format.

4 Q Would you, just on a hypothetical basis, for, you
5 know, an average residential customer, walk through
6 this exhibit and explain, you know, which of these,
7 you know, go through what charges would apply to that
8 customer, because there's a lot of different
9 information on here and different rates?

10 A (Hartley) Sure. Typically, your residential
11 customers have a five-eighths inch meter. Sometimes
12 larger, but typically most of them have five-eighths.
13 And, so, their monthly what we call "fixed" or
14 "customer charge", whether they use any water at all,
15 as long as there's an active service and they have a
16 meter and we service them, would now be proposed to
17 be \$15.58 per month.

18 In addition to the standard customer
19 charge, and then the rest of the meter sizes usually
20 are for larger customers, both commercial/industrial
21 customers who require, obviously, larger flows of
22 water coming in, greater flows of water coming into
23 their facilities. But, in addition to the standard
24 customer charge, the monthly volumetric charge is

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 \$4.75 per hundred cubic feet. And, just for FYI,
2 there's 748 gallons in 100 cubic foot of water. So,
3 the customers still have a way of controlling their
4 water usage, particularly outdoor usage, such as lawn
5 irrigation, by actually limiting some of their
6 volumetric use. But these rates are based on
7 historical usage in the test year of the volumes used
8 for all customers. And, it results in a \$4.75 per
9 hundred cubic foot rate.

10 I'd also like to take you further down,
11 under the "Monthly Fire Protection Charge", the
12 "Private". These are typically for
13 industrial/commercial accounts, schools, who have
14 fire service connections, and also have the
15 capabilities for fire flows. And, so, those are also
16 a monthly charge. And, for example, on a one and a
17 half inch connection, it would be \$8.34 a month.
18 And, then, moving down, we do have some municipals,
19 such as Pelham and Londonderry, who do pay for fire
20 protection, and for each hydrant it's 90 -- going to
21 be proposed at \$96.46. And, then, as we discussed
22 earlier, we pulled out the portion allocable to our
23 best calculation for the Litchfield Private Hydrant
24 charge of \$9.01 per month. And, each customer in

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 Litchfield, in addition to the five-eighths inch
2 charge of \$15.58 per month, will also be charged
3 \$9.01 a month for their Private Hydrant charge. And,
4 this is all, of course, subject to the approval
5 today.

6 Q Okay. Would you now look at Exhibit 12, proposed
7 Exhibit 12.

8 A (Hartley) Yes.

9 Q Would you identify that exhibit for the Commissioners
10 please.

11 A (Hartley) Yes. That is, for all permanent filings,
12 we always file with it a "Report of Proposed Rate
13 Changes". But, upon settlement with Staff and the
14 OCA, these get updated for what the proposed rate
15 increase will be. And, in this case, it's the
16 24.26 percent increase. And, also, we updated this
17 particular Report of Proposed Rate Changes to include
18 a separate item, a line item, for the Litchfield
19 Private Hydrant. And, what this shows the Commission
20 is that, on a total, we will get a 24.26 percent
21 increase, resulting in \$755,897 of additional
22 revenues. But it also shows you where the revenues
23 will come from, the various classifications of
24 customers. For example, the first line is

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 "General-Metered", and the average number of
2 customers is 4,472 customers, this is the present
3 rates --

4 Q Ms. Hartley, can I just stop you there?

5 A (Hartley) Sure.

6 Q The "General-Metered", so is that the A -- the
7 current A, B, and L together, --

8 A (Hartley) Yes.

9 Q -- now it's all collapsed --

10 A (Hartley) All residential -- All General-Metered
11 customers collapsed into one rate. And, the
12 combination of those three rate groups, excluding now
13 the Litchfield Private Hydrant, is \$2,717,582. We
14 applied the 24.26 percent to that, and we are going
15 to propose to recoup revenues going forward of
16 \$659,227 from that classification of customer. Going
17 down, you have the other classifications of
18 customers, which really relate to the first sheet I
19 talked about, you've got your "Private Fire
20 Protection", you've got your "Private Hydrants",
21 you've got your "Litchfield Private Hydrants", you've
22 got your "Fire Protection-Municipal", and then we
23 pulled out the "Fire Protection-Hydrants". And, the
24 reason the municipals are separate, we have municipal

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 accounts that are General-Metered, and that's what
2 that represents.

3 Q Looking now at what's been marked as "Exhibit 13" for
4 identification.

5 A (Hartley) Yes.

6 Q Would you identify that please.

7 A (Hartley) Yes. As Commissioner -- Chairman Getz
8 asked, "will we see the annual consolidated bill and
9 how that relates to the current bill?" And, this
10 particular short schedule shows you that.

11 Q Was this prepared by you?

12 A (Hartley) Yes, it was. And, I had it reviewed by
13 Staff. The average residential customer annual bill
14 as stated in the Settlement Agreement for the PEU
15 (PEU A?) rate is approximately \$417.80 annually. If
16 we apply the 44.8 percent increase to that, their new
17 annual consolidated bill will be \$604.96. Keep in
18 mind, this includes the customer charge, as well as
19 their volumetric charge used in the test year.
20 Again, people do have control over their volume. The
21 new monthly consolidated bill now results into an
22 estimate of about \$50.41 per month for the A group.
23 And, then, the B group, we had a current bill of
24 about \$543.44. With an 11.3 percent increase, which

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 results in a \$604 annual consolidated bill, or
2 \$50.41. Keeping in mind that the L group has this
3 extra charge of \$9 per month in it, \$9.01, the
4 current bill is \$514, resulting in a 38.68 percent
5 increase, or \$713.08 annually, and that will result,
6 when you add an additional \$9.01, resulting in \$59.42
7 per month.

8 And, this is based on an average usage
9 of 8,800 cubic feet of water annually. Because,
10 depending on the water usage, this, obviously, could
11 vary from customer to customer. So, this is an
12 average.

13 **MS. THUNBERG:** Ms. Hartley, Staff just
14 has a clarifying question, --

15 **WITNESS HARTLEY:** Sure.

16 **MS. THUNBERG:** -- going back to
17 Exhibit 11 and 12, if you can. And, I'm going to ask Doug
18 Brogan to ask the clarifying question.

19 BY MR. BROGAN:

20 Q Yes. Back on Exhibit 11, Ms. Hartley, I think you
21 had said, down near the bottom of the page, the
22 "96.46" for private hydrants applied also to, not
23 only to things like schools, but also to, for
24 example, the Town of Pelham. Is it -- I believe that

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 the 96.46 only applies to, you know, schools and
2 private hydrants, but that the Towns of Londonderry
3 and Pelham have their own separate municipal?

4 A (Hartley) You're right, Doug. I'm sorry, I misspoke.
5 Yes.

6 Q Just to clarify it.

7 A (Hartley) Yes, that is correct.

8 Q Thank you.

9 A (Hartley) This would be for the private hydrants.
10 Apologize for that.

11 **MS. THUNBERG:** Thank you.

12 BY MS. KNOWLTON:

13 Q Ms. Hartley, do you believe that the rates that are
14 set forth, the proposed rates that are set forth in
15 the Settlement Agreement -- in the Settlement
16 Agreement are just and reasonable?

17 A (Hartley) I do.

18 Q Why is that?

19 A (Hartley) Just to review, when we acquired the
20 system, we gave all these customers a ten percent
21 rate reduction, every customer. We're now looking at
22 a 2004 test year, with, obviously, *pro forma*
23 adjustments for 2005. And, there have been numerous
24 increases, not only the capital improvements that

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 Mr. Ware has discussed, but we've, particularly in
2 the last two or three years, experienced great
3 increases in power, purchased water, chemical,
4 property taxes, costs that we can't control. And,
5 so, therefore, we feel at this time that these rates
6 are just and reasonable. And, in fact, many of the
7 items that I mention are going up as we speak. It's
8 becoming challenging. So, we really believe that the
9 rates proposed today are just and reasonable.

10 Q What is your opinion regarding consolidation of the
11 three rate classes -- excuse me, rate groups?

12 A (Hartley) I agree with Mr. Lenihan. We treat them as
13 one company. We don't treat them as individual
14 systems. When our crews go out, we take the most
15 efficient route possible, and we capture, whether
16 they're the A group, B group, or L group, we're out
17 there reading meters from one system to another. We
18 treat them on a consolidated basis. I also have to
19 say, I think, for customers, it can be confusing,
20 especially if you live in the same town and your next
21 door neighbor has a different rate than you have.
22 And, I think that this will make -- facilitate our
23 explanations to customers, our staff, even our staff
24 at Pennichuck, when they have been with us a while,

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 you know, they learn all the different systems,
2 because there's numerous ones, and more being added
3 every day, it makes it easier to discuss billing
4 questions with customers, rather than having to think
5 what system are they in. And, it's challenging
6 enough when you have three different companies, never
7 mind within a company to have so many different rate
8 groups. So, I believe this is going to facilitate
9 customer service, I think it's going to facilitate
10 our Accounting Department, our operations, and all
11 the way around be a very good thing.

12 Q Were the Commission to approve the proposal set forth
13 in the Settlement Agreement, would there be a
14 difference between permanent rates and the temporary
15 rate relief that was awarded to the Company this past
16 summer?

17 A (Hartley) Yes. The temporary rate went in effect on
18 June 16th. And, as part of this settlement, the
19 difference between the temporary rate of 9 percent,
20 and the permanent rate of 25.26 percent, results in
21 15.26 percent.

22 Q Ms. Hartley, I just want to jump in. You said
23 "25.26 percent", did you mean "24.26 percent"?

24 A (Hartley) Twenty-four. Apologize. "24.26 percent".

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 So, that difference results in 15.26 percent. That
2 is part of the Settlement Agreement, recoupable back
3 to June 16th of 2005.

4 Q Would you look at what's been marked for
5 identification as "Exhibit 14".

6 A (Hartley) Yes.

7 Q Are you familiar with this document?

8 A (Hartley) Yes, I am.

9 Q Did you prepare this?

10 A (Hartley) Yes, I did.

11 Q Would you explain what this reflects.

12 A (Hartley) Yes. I'll do my best. And, it looks a
13 little intimidating at first. But it really results
14 in what we feel is a fair recoupment by all classes
15 of customers. As part of our settlement discussions
16 with the OCA and Staff, there was some discussion
17 regarding "how are we going to recoup the difference
18 between the permanent rates and the temporary rate in
19 an equitable way?" Here we're now offering
20 consolidated rates, we have these different rate
21 groups, and the Company has billed all these
22 different rate groups based on a nine percent
23 increase to each individual rate. So, we all agreed
24 that, number one, we should offer a consolidated

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 recoupment. But I believe it was OCA and Staff that
2 said "well, it would be more fair if that was done by
3 the different classes of customers, because,
4 obviously, some of your commercial accounts would
5 have a larger recoupment and then some of the
6 General-Metered." So, what the Company did was we
7 show you on the first set, if you will, of this
8 schedule, the first -- 1, 2, 3, 4, 5 -- I guess six
9 lines, the different customer class -- customer
10 types. And, we're showing you that, in July, you
11 know, we billed \$284,574 and -- in the "Residential"
12 category of customers. Now, that "Residential"
13 category for July includes the A group, the L group,
14 and the B group. So, I consolidated them for the
15 purpose of this schedule. So, what you're looking at
16 is a consolidated schedule of all the rate groups by
17 the various customer classifications for the purposes
18 of this recoupment.

19 And, at the bottom of that same
20 schedule, right under where it says "July 2005",
21 you'll see July charges. And, then, what I did is we
22 took a 15.26 percent and applied it to the 284,000,
23 for example, 574 dollars (\$284,574). That would be
24 the difference, the 15.26 percent is the difference

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 between the permanent rates and the temporary rate,
2 which we already have included in the July, and that
3 came out to \$30,943. You'll notice that it's
4 prorated, because it was for service rendered on
5 June 16th. So, the amounts you see in the
6 "Residential", "Commercial", "Fire Protection"
7 charges for July 2005 are prorated amounts. And,
8 then, we applied the 15.26 percent to that prorated
9 amount.

10 All right. We follow that through the
11 whole schedule for all of the months that the
12 permanent rate was in effect, until we get to
13 January. And, obviously, we haven't completed
14 January, so we don't know what the effect of the
15 9 percent temporary rate increase is going to be in
16 actual dollars, so we used 2005 data for the January
17 charges, just for purposes of projecting what the
18 rate recoupment might look like. And, we used the
19 November 2005 for the February charges. And, what we
20 did then is apply the -- that included the 9 percent
21 at that time, those two months. So, then, what we
22 did is we applied the 9 percent to that -- or, the
23 15.26 percent to that. And, for purposes of only
24 showing you what it might look like when we actually

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 get an order from the Commission. Obviously, when we
2 get an order from the Commission, we're going to
3 provide this schedule to Staff. They will review it,
4 audit it, and determine if it's appropriate. And,
5 then, we will have a fixed number that we will be
6 billing for the recoupment.

7 The idea is, you're going to have a
8 total differential amount of dollars between the
9 permanent rate and the temporary rate for each class
10 of customer, and I'll take you right down to the very
11 last corner there, where it says said "Residential
12 \$283,245". Consolidated, that is what we're going to
13 be recouping from that group of -- class of
14 customers, consolidated.

15 Now, I used the current number of
16 customers. When we filed the case, we have one
17 number, we have a certain number customers. And,
18 now, we have growth in the system, we've acquired
19 some systems, we have new customers. So, I have
20 included the new customers, because it would be
21 impossible for us to differentiate between when these
22 customers came on line or didn't come on line. So,
23 what we do is we take the number of customers we have
24 at that time, and we will update that number also for

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 the Staff and OCA. And, we divide that into the
2 total dollars for the "Residential" classification of
3 customers. So, we have 4,583, which we divided into
4 \$283,245. So, therefore, the recoupment per customer
5 class, in this case the Residential, would be \$61.80.

6 Now, in the agreement with Staff and
7 OCA, we said we will recoup that over 12 months. So,
8 each month this classification, on a consolidated
9 basis, will receive an additional surcharge of \$5.15,
10 based on the information we have today, going forward
11 for 12 months, till we've reached the \$61.80.

12 Now, that number is not settled. We
13 know that there are some estimates in here, I need to
14 review it with Staff, for the last few months. But
15 it gives the Commissioners a chance to see what that
16 impact would be on customers, and as well as the
17 Staff and OCA.

18 Q Ms. Hartley, did the Company incur any rate case
19 expense as part of this proceeding?

20 A (Hartley) Yes, we did.

21 Q Do you have an estimate of what that is?

22 A (Hartley) Yes. But I'd like to go back to one thing
23 on that same schedule, --

24 Q Okay.

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Hartley) -- if I could, Ms. Knowlton. The total
2 recoupment that we're estimating at this time, the
3 rate case -- the difference between permanent and
4 temporary rates is approximately \$359,000, again,
5 subject to final numbers. Now, I'm sorry, I just
6 wanted to mention that.

7 Q No. Thank you. I appreciate that clarification.
8 And, my question was, did the Company incur rate case
9 expense, I believe you said that it did.

10 A (Hartley) Yes.

11 Q And, I had asked what the -- if you had an up-to-date
12 figure for that rate case expense?

13 A (Hartley) Yes. Again, we had, for approximation of
14 this, for the Commissioners, and both the Staff and
15 the OCA can understand what the impact of the rate
16 case expenses for this same group of customers might
17 look like, we prepared a schedule with backup
18 receipts and detail for Staff to review. Obviously,
19 the case isn't quite complete. I'm waiting for
20 another invoice from our depreciation expert, AUS,
21 also some final attorney bills, and also the hearing
22 cost today. But I estimate that the total rate case
23 expenses for the case will be approximately \$29,793.

24 Q Did the Company undertake any efforts to mitigate

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 rate case expense in this case?

2 A (Hartley) Yes, we did. A couple things. Number one,
3 in accordance with Staff and the OCA, we decided that
4 we would not provide an expert witness for return on
5 equity. They're very costly and this is a very small
6 company. Typically, we reserve that for our larger
7 companies. And, so, we've been able to settle the
8 case without that type of testimony.

9 Secondly, I negotiated with McLane &
10 Graf if we could maintain reasonable legal fees in
11 this case, because it is a small company and the
12 Company is sensitive to a very small amount of
13 customers burdened with excess rate case expenses.
14 That just doesn't set well with the Company, and it
15 certainly doesn't set well with customers. So, I
16 discussed it with Ms. Knowlton, and she and I agreed
17 that the Company would provide certain work, in which
18 we did a lot of in-house work ourselves. We did
19 everything we could to mitigate the legal costs.
20 And, Ms. Knowlton was very cooperative, and I think
21 we achieved our results.

22 Q Has the Company agreed, as part of the settlement,
23 to, in the future, make further, you know, similar
24 efforts to mitigate rate case expense where possible?

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Hartley) We will, and we have always done that.
2 And, we do a lot of our own in-house work, even
3 collating things, and we will always continue to do
4 that to the best our abilities.

5 Q Do you have a estimated cost for the depreciation
6 study?

7 A (Hartley) I do. We estimated at about \$39,600 at
8 this time. Again, I'm waiting for a final invoice,
9 but it will be somewhere in that range.

10 Q What period of time have the parties agreed to
11 recovery of rate case expense, which would include
12 the expense associated with the depreciation study as
13 well?

14 A (Hartley) The parties agreed, OCA, Staff, and
15 ourselves, to a 12 month recoupment. Again, this
16 will be based on current customers. And, I'm
17 estimating the combination of the legal expenses and
18 the depreciation study will be somewhere in the
19 \$69,500 range, somewhere in there. And, currently,
20 we have about 4,900 customers in that system. That
21 will work out to a rate case expense per customer of
22 about \$14.02. And, the rate case amount per month
23 over 12 months, as we will recoup it simultaneously
24 with the rate case recoupment, for the difference

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 between the permanent and temporary rate, will be
2 over 12 months, will be \$1.17.

3 **MS. KNOWLTON:** I have nothing further
4 for Ms. Hartley.

5 **CONTINUED BY THE WITNESS:**

6 A (Hartley) I'd like to just mention one thing. That
7 just for the Commissioners edification, that that
8 \$1.17, plus the \$5.15, we're talking about \$6.32 a
9 month in surcharges.

10 **MS. KNOWLTON:** Thank you.

11 **CONTINUED BY THE WITNESS:**

12 A (Hartley) Just so that that was clear.

13 **MS. KNOWLTON:** Now I have nothing
14 further.

15 **WITNESS HARTLEY:** Yes. I didn't -- I
16 didn't quite finish. Thank you.

17 **CHAIRMAN GETZ:** Ms. Ross, how much do
18 you have?

19 **MS. ROSS:** I have no questions for the
20 witnesses. I think we might appreciate a break before we
21 wrap this proceeding up to confer with the other parties.

22 **CHAIRMAN GETZ:** Then, let's take a brief
23 recess. Well, okay. Let's -- do you have a few?

24 **CMSR. MORRISON:** No.

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 **CHAIRMAN GETZ:** Okay.

2 **CMSR. BELOW:** Just a few questions.

3 BY CMSR. BELOW:

4 Q Ms. Hartley, you testified that Windham was an
5 example of a community where there are currently
6 customers on both Schedule A and Schedule B.

7 A (Hartley) Correct.

8 Q Would Derry, Hooksett, Londonderry and Raymond be
9 additional examples of communities where you have
10 customers that are both on A and B?

11 A (Hartley) Some. Maybe it would be best if Mr. Ware
12 answered that.

13 A (Ware) In the Town of Raymond, and in Londonderry,
14 and I believe Windham, I believe those are the three
15 communities, out of those that are there, where we
16 have customers in different rate classes. Also,
17 possibly Hooksett, we have two different systems
18 there, and I think one is a A and one is a B.

19 Q And, perhaps Derry, where Maple Hills is in Group A,
20 and East Derry, Farmstead, is in Group B?

21 A (Ware) Yes.

22 Q I was a little confused about the FP-Hydrants, Fire
23 Protection-Hydrants. Are those municipal hydrants?
24 This is on Exhibit 12. Ms. Hartley prepared that, I

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 believe.

2 A (Hartley) Yes, I did. Okay. Those are. Those are
3 the three, those are the three municipal hydrants
4 that are part of this case.

5 Q And, are they charged at the same rate as for private
6 hydrants or are those special?

7 A (Hartley) No, they have different rates for each
8 community. But they all receive the 24.26 percent
9 across-the-board increase.

10 Q Okay. And, the Litchfield Private Hydrant charge,
11 are those really private hydrants or are they more
12 like privately paid for public hydrants?

13 A (Hartley) They're privately paid for public hydrants,
14 which the Town of Litchfield refused to pay for
15 there.

16 Q But they're in public rights-of-way, --

17 A (Hartley) Yes.

18 Q -- along public streets, --

19 A (Hartley) Yes.

20 Q -- where you have water lines?

21 A (Hartley) Yes.

22 Q Okay.

23 A (Hartley) Subject to my -- the engineering expert.

24 A (Ware) That is correct.

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 Q And, is that -- that's not confusing to customers?

2 A (Hartley) To be honest with you, I don't know if it's
3 confusing.

4 Q Okay.

5 A (Hartley) They know that they had included in their
6 rates back when Mr. Lenihan was referring to those
7 cases, that fire protection was embedded in their
8 rate. Now, whether those same customers remember
9 that and know it today, we may have to, and I think
10 it's a good point, we'll probably have to send them a
11 special letter explaining what has happened to their
12 rate since this consolidation and the new format.

13 Going forward, after we do a cost of
14 service study, it's going to put it in line better.
15 But, typically, your towns pay your hydrant charges
16 in the public right-of-way, but Litchfield absolutely
17 refused.

18 Q Okay. And, just a minor question about Exhibit 11.
19 It says "PEU" at the top, which I presume stands for
20 "Pennichuck East Utilities".

21 A (Hartley) Correct.

22 Q When you send this to customers, is there something
23 that indicates "Pennichuck East Utilities, Inc.",
24 because, of course, at the bottom, it just says:

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 "Pennichuck Water", or that ties that to the PEU?

2 A (Hartley) Well, this is another customer situation
3 that we hope, by consolidating rates, one will create
4 less confusion. A lot of our customers know us as
5 "Pennichuck Water". They don't know they're in
6 Pennichuck East Utility. I know this sounds -- It's
7 not something we publicize a lot and we don't brand
8 it. We're Pennichuck Water. So, you see at the
9 bottom, all of our regulated utilities receive bills
10 that say "Pennichuck Water". It just helps in terms
11 of them understanding who's servicing them.

12 However, we need to identify the
13 different rate schedules that these customers are
14 under, for publication, as well as for our own
15 knowledge in house. So, you will see a "PAC
16 Schedule", which is Pittsfield Aqueduct, but then at
17 the bottom it will say "Pennichuck Water". Because,
18 when somebody calls our organization, they don't ask
19 for Pittsfield Aqueduct. They believe they're being
20 serviced by Pennichuck Water. So, to avoid
21 confusion, and I hope I'm answering this correctly,
22 we go by "Pennichuck Water" on all our bills, all our
23 publications, but all the rate schedules identify
24 them, and maybe for clarification we could put

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 "Pennichuck East Utility", but I've got to tell you,
2 I don't think most of the customers know us by that
3 name. They know Pennichuck.

4 Q Okay. And, I have one more question for Mr. Lenihan.
5 I believe you testified about your -- the concern or
6 the history that consolidation of different, small
7 satellite systems or stand-alone systems and
8 combining them into the single rate may somewhat
9 deviate from the concept of service being -- rates
10 being based on the cost of service. But you
11 expressed the concern that to allocate costs for each
12 small, independent system would perhaps create
13 burdensome and excessive regulatory costs. Was that
14 your -- a concern in terms of balancing what's just
15 and reasonable and the concept of costs being based
16 on --

17 A (Lenihan) Yes.

18 Q -- rates being based on costs?

19 A (Lenihan) Maybe to clarify, I mean, if one was to go
20 to a pure cost-based rate, each individual system had
21 its own revenue and its own rates, which is not the
22 case here presently, the effective rates are not
23 based on that. As I indicated earlier, the present
24 rates are based on an analysis that was performed

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 many years ago, which included a lot of customers
2 that are no longer being served. Yes. If one was to
3 place the principle of ratemaking, which is costs,
4 one of the principles, on the highest pedestal, then,
5 yes, individual rates for each individual system
6 would accommodate that approach. But, in order to
7 weigh the benefits and the costs, no pun intended, of
8 individual satellite system rates, one has to take
9 into consideration other matters.

10 There are other principles involved in
11 the rate-setting process. One is clarity.
12 Obviously, it has to be sufficient to bring
13 sufficient revenue to the Company, which it
14 satisfies. Ms. Hartley alluded a little earlier to
15 Pennichuck's desire to clear up any confusion of
16 customers, by having one rate for all the -- one
17 consolidated rate for all of the customers. That
18 would accommodate that.

19 I believe that, with the reasons I
20 stated earlier, we're seeing, "we", the Commission,
21 the Staff, are seeing more and more small systems
22 come in, small systems being served by Pennichuck.
23 And, at the present time, Pennichuck assigns one of
24 the three rates, actually, one of the two rates, the

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A rate or the B rate, because an analysis of an
2 individual system, an individual system revenue is
3 going to fall closer to the A rate or to the B rate.

4 Now, by virtue of the fact that it falls
5 closer to the A rate or the B rate, it's just
6 coincidental. The A rate and the B rate are not
7 based on something today, it's cost-based. So, what
8 I'm saying is, that the rates are not based solely on
9 cost, then I think it makes sense, from the
10 standpoint of revenue stability for the Company, as
11 well as understandability on the part of the
12 customers, I think it satisfies fairness to the
13 customers. I don't believe that it produces undue
14 discrimination between the customers or among the
15 customers. And, I think, overall, it, by
16 consolidating the rates, it will have, in the long
17 run, an averaging or lessening impact of future costs
18 that the Company is going to incur to address
19 deficiencies in one particular system or another.

20 You know, today, in this particular
21 recommendation, there are a group of customers who
22 are going to see a higher increase than others.
23 Hopefully, in the future, when repairs have to be
24 made, upgrades have to be made, a particular group of

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 customers won't see a significant impact. That's all
2 I'm saying.

3 Today, individual systems had their own
4 rates, one would be the highest and one would be the
5 mean, whatever. We don't know what it's going to be,
6 I don't know what it's going to be in the future.
7 Again, environmental requirements are becoming more
8 and more strict all the time. And, there is a
9 definite cost of complying with these environmental
10 requirements. As I say, we see more, the Commission
11 sees more and more smaller systems coming in. And, I
12 think it makes sense at this time to adopt a
13 consolidated rate for all the various small systems
14 that Pennichuck serves.

15 Q Could your other witnesses perhaps clarify the intent
16 of Section C of the proposed Settlement Agreement,
17 that "Pennichuck East Utilities should prepare a cost
18 of service study to be completed for submission with
19 its next rate filing". Is the intent not to go back
20 to the cost of service for each satellite system, but
21 is rather the intent to do a cost of service for PEU
22 as a whole or within the few classes, as relative to
23 Pennichuck as a whole system? What's the intent
24 there?

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 A (Hartley) The intent is to make sure that we have,
2 again, the classifications of customers, you have the
3 General-Metered, you have the Private Hydrants, you
4 have the Private Fire Protection, you have the
5 Municipal Fire Protection. And, typically, on a
6 consolidated basis, once we get consolidated rates,
7 they, meaning the experts, will look at the entire
8 system, and those classifications of customers, to
9 determine what portion of that system is properly, on
10 a cost basis, allocated to the various customer
11 classifications.

12 So, what we were a little concerned
13 about will be taken care of as to where that fire
14 protection should sit right now. Right now, we know
15 we're within industry ratios of what we're allocating
16 to fire protection. But, to refine it more, a cost
17 of service study is needed. And, that's what we're
18 going to do. So, we're not going to go back to the
19 individual rates or the individual rate groups. What
20 we're going to do is now make sure that all
21 classifications of customers are fairly allocable --
22 their costs are fairly allocable for the whole system
23 to the various customer classes. And, if you want to
24 understand more about "fire protection"

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 classification and cost allocations, Don, maybe you
2 could make a comment about how you feel about the
3 industry average.

4 A (Ware) The industry average varies from a low of
5 about nine to ten percent of the total rate
6 requirement being recovered through fire protection
7 charges, which come from, as Bonnie mentioned,
8 municipal fire protection and private fire
9 protection, up to a high of around 30 percent.
10 Typically, the smaller the community, the smaller the
11 water system, the greater portion that's allocable to
12 fire protection, because the domestic demands are
13 relatively small by comparison to those demands
14 created by fire, both from a distribution main size
15 and the size of the storage facilities. And, then,
16 as you progress up in size of the system, you reach a
17 point where the fire protection demands are less than
18 those associated with the domestic demands. And, so,
19 typically distribution sizes are driven by domestic
20 versus fire protection; storage is driven by a
21 combination of both.

22 And, so, the purpose of a cost of
23 service study, as Bonnie has indicated, if to
24 determine, you know, how to allocate those fire

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 protection charges out appropriately, and make sure
2 that you're recovering those charges that are
3 necessary to provide fire protection, as well as
4 looking at, you know, what should be in your fixed
5 charge versus your variable rate charge.

6 Q And, Staff would agree with that?

7 A (Lenihan) I concur with Mr. Ware. As the years go
8 on, and if a utility comes in and applies, let's say,
9 a percentage increase of revenue to the rates, as
10 time goes on, that application of rate increases may
11 not track consistently with the costs of fire
12 protection, let's say, versus a General-Metered
13 service, especially, too, if you add hydrants, you
14 can put in more hydrants, and, unless the fire
15 protection versus the metered -- the metered rates
16 are examined, the balance could go off. So, I concur
17 with Mr. Ware.

18 **CMSR. BELOW:** Thank you.

19 **CHAIRMAN GETZ:** I just had one follow-up
20 and another question.

21 BY CHAIRMAN GETZ:

22 Q But, for Mr. Lenihan, I presume what you're saying,
23 when you were talking about the cost basis, just goes
24 to the issue of rate design. The overall revenue

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 requirement, I take it, you would say fairly reflects
2 the Company's costs, is that correct?

3 A (Lenihan) That's correct.

4 Q And, what you're --

5 A (Lenihan) That would be reflected in the rates.

6 Q And, what you're saying with respect to rate design,
7 there's no longer any cost justification for the
8 distinction between A, B, and L?

9 A (Lenihan) That is correct.

10 Q And, the other thing, of course, now recognizing that
11 there's different cost bases between systems, I
12 assume I would get that *proviso*, but I have the
13 question, what's the current rate for Pennichuck
14 Water Works and what's the current rate for
15 Pittsfield Aqueduct Company?

16 A (Hartley) I have \$1.74 -- okay.

17 Q Well, we're going to take a quick recess.

18 A (Hartley) Yes. Subject to just check on a penny,
19 I'll get that for you.

20 **CHAIRMAN GETZ:** Okay. All right. Let's
21 take a brief recess.

22 (Recess taken at 11:48 a.m. and hearing
23 reconvened at 12:03 p.m.)

24 **CHAIRMAN GETZ:** Anything in the nature

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 of redirect?

2 **MS. THUNBERG:** Yes. Staff had a couple
3 of questions please.

4 **REDIRECT EXAMINATION**

5 BY MS. THUNBERG:

6 Q Mr. Lenihan, does Staff have a position with respect
7 to the reasonableness and justness of the rates that
8 are proposed in this Settlement Agreement?

9 A (Lenihan) Staff believes that the rates proposed in
10 this Settlement Agreement are just and reasonable and
11 reflect the cost of providing service to the
12 customers of Pennichuck.

13 Q And, a question to Mr. LaFlamme, regarding the rate
14 case expenses. And, has Staff had a opportunity to
15 review a estimate of rate case expenses?

16 A (LaFlamme) Yes. The Company submitted the amount of
17 the rate case expenses that they had compiled as of
18 November/December, I believe, along with the
19 supporting detail. And, the Company is still
20 awaiting a couple of final bills that they will be
21 including in their final rate case expense total.

22 Q Okay. When PEU supplies that final tally of rate
23 case expenses, does Staff believe that it is going to
24 necessitate adjusting the 12 month period over which

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 the surcharge is applied?

2 A (LaFlamme) No.

3 Q And, is it Staff's intent to, after reviewing the
4 rate case expenses, to file a recommendation with the
5 Commission?

6 A (LaFlamme) Yes.

7 **MS. THUNBERG:** Thank you. That was it.
8 Thank you.

9 **CHAIRMAN GETZ:** Thank you. Anything
10 further for this panel?

11 **MS. KNOWLTON:** I believe that Mr. Ware
12 has an answer to your question regarding the difference
13 between the PWW, PEU rates.

14 **CHAIRMAN GETZ:** Thank you.

15 **WITNESS WARE:** Yes. Currently, in the
16 regulated utilities, we have three rates, for "PAC",
17 Pittsfield Aqueduct Company, "PWW", Pennichuck Water
18 Works, and "PEU", Pennichuck East Utility. What I've done
19 here is calculated their rates based on the same
20 volumetric usage of 8,800 cubic feet, to give you the
21 breakdown in rates, customer charge and volumetric.
22 Pittsfield Aqueduct Company has a customer charge of
23 \$10.27 per month, and a volumetric charge of \$3.30 per
24 hundred cubic feet, which translates to a annualized bill

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 of \$413.64. That was based on a rate case that was billed
2 on a 2002 test year.

3 Pennichuck Water Works currently has a
4 customer charge of \$11.24 per month, a volumetric charge
5 of \$1.76 per hundred cubic feet, resulting in an
6 annualized bill of \$289.76 per year. Those rates being
7 based on a 2003 test year.

8 And, lastly, as we have been discussing,
9 the proposed rates for Pennichuck East Utility are \$15.58
10 per month, a customer charge of \$4.75 per hundred cubic
11 feet for the volumetric charge, resulting in a bill of
12 \$604.96 per year, based on a 2004 test year.

13 **CHAIRMAN GETZ:** Thank you.

14 **MS. ROSS:** I would like to ask one final
15 question of either Company witness on the panel.

16 **CROSS-EXAMINATION**

17 BY MS. ROSS:

18 Q If you received a telephone call from a fixed income
19 elderly person on the water system for this company,
20 for Pennichuck East, asking why their rate had
21 increased, let's say, in the 30 percent range, how
22 would you respond?

23 A (Hartley) Well, firstly, interestingly enough, the
24 elderly people who are on a fixed rate usually have

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 very low consumption. So, their increase, although
2 it will be much more, probably won't be as
3 significant as those who do lawn irrigation and other
4 things. And, that kind of helps them, and they can
5 control that.

6 But, secondly, we would explain to them
7 the improvements in the system, and the fact that
8 we've had increased costs since 1998, and that
9 there's been significant expense costs, in terms of
10 power, and, depending on the system, it could be
11 purchased water. So, it would be power, purchased,
12 property taxes, chemicals, and other uncontrollable
13 expenses on the part of the Company, as well as
14 increases in labor.

15 And, also, we would explain that, at the
16 time we took over their system in 1998, we gave every
17 customer a ten percent rate reduction. So, in
18 essence, whatever the increase may be today to them,
19 they have enjoyed the benefit of that rate reduction,
20 due to the synergies we had created at that time and
21 our hard work to mitigate a rate increase for a great
22 length of time. And that, in essence, the increase
23 to them really, from where they were in 1998, is
24 really only 20 percent. And, I think that helps to

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 -- certainly, nobody wants a 30 percent increase,
2 nobody wants to pay increased charges. But, I think,
3 when you realize that it's been seven, almost seven
4 years since we've had rate relief, certainly six, and
5 you divide that into, say, 20, 20 percent, that's
6 fairly reasonable over that period of time that these
7 customers have benefitted from the acquisition
8 originally in 1998.

9 So, that's how we will explain it. And,
10 there will be some education for some of the customer
11 service reps that we have, because, as we know,
12 different systems are going to have a different
13 impact to them, and they will have to be educated in
14 that. And, we will be explaining that to each of our
15 customer service reps, specifically like Green Hills
16 and customers like that. And, these folks already
17 know. I mean, we've been out there. Pennichuck
18 trucks have been moving all over those systems for
19 some -- many years now, and I think most of them know
20 they have benefited from improved service.

21 I find typically, just as an
22 afterthought, what I've noticed in my years, you
23 know, with customers, is they -- people will perceive
24 paying for what they think it's worth. It's one

[Witness panel: Hartley|Ware|LaFlamme|Lenihan]

1 thing to increase rates and not have achieved any
2 benefits in the system or improvements. It's another
3 thing, which we have done, and I know Mr. Ware has
4 articulated it, and that was only a couple of
5 instances, we've made significant improvements. And,
6 customers typically are reasonable about paying for
7 increases when they have achieved a benefit.

8 **MS. ROSS:** Thank you.

9 **CHAIRMAN GETZ:** Okay. There does not
10 appear to be anything else for the panel, so the witnesses
11 are excused. Thank you.

12 **WITNESS HARTLEY:** Thank you very much.

13 **CHAIRMAN GETZ:** Is there any objection
14 to striking identifications and entering the exhibits as
15 full exhibits?

16 **MS. THUNBERG:** No. None.

17 **MS. KNOWLTON:** None.

18 **CHAIRMAN GETZ:** They will be entered as
19 full exhibits. Is there anything else we need to address,
20 before hearing closings?

21 (No verbal response)

22 **CHAIRMAN GETZ:** Okay. Then, we'll give
23 the Petitioner the chance to go last. Ms. Ross, do you
24 have anything?

1 **MS. ROSS:** Yes. Thank you,
2 Commissioners. The OCA does support this settlement, and
3 does note that we have had calls on other systems,
4 especially systems where there are a lot of small
5 satellite systems, moving into a consolidated rate, so
6 that some customers are seeing a very steep climb in
7 rates. And, that was why I asked the final question of
8 the Company, because I am frankly finding it difficult to
9 justify my office's existence, which is really to try to
10 keep rates low for consumers, with what we're doing in
11 these water cases.

12 Having said that, I do believe, having
13 worked with the filing, through the filing and discovery
14 with Staff, that the costs that the Company has incurred
15 are real costs and necessary costs, and that the cost of
16 running a water system is apparently an increasing cost.
17 But I do think it is a significant challenge to educate
18 customers about the fact that capital improvements cost
19 more now than they used to, and that there are more water
20 quality issues now than there used to be. And, so, I just
21 -- I raise that as a concern, especially where we have
22 small satellite systems, some of which have probably been
23 underpaying for years, moving into a consolidated larger
24 system and having to pick up, you know, significant costs

1 related to capital improvements.

2 However, we do support the settlement.

3 Thank you very much.

4 **CHAIRMAN GETZ:** Ms. Thunberg.

5 **MS. THUNBERG:** Yes. Staff has
6 thoroughly reviewed the filing and has conducted extensive
7 discovery, as evidenced by some of the exhibits that we
8 entered in this -- entered in as exhibits. And, Staff is
9 confident that its review is in accordance with
10 established principles in this Commission on what is
11 deemed a just and reasonable rate. And, so, thus we do
12 recommend the Commission approve the Settlement Agreement
13 as proposed and as modified with the two corrections in
14 the Settlement Agreement. Thank you.

15 **CHAIRMAN GETZ:** Ms. Knowlton.

16 **MS. KNOWLTON:** On behalf of the Company,
17 I would first like to thank the Staff and the Office of
18 Consumer Advocate for their hard work on this case.
19 Because Pennichuck East Utility has not come in for a rate
20 case since the systems were acquired in 1998, I know that
21 there was a significant amount of work that was put in by
22 the Staff and the OCA to, you know, really delve into the
23 Company's records and to learn about the systems and, you
24 know, where the costs are and whether the expenditures are

1 reasonable. And, I just want to make that public thanks,
2 because I know it was a lot of work, and you saw that
3 probably in the volume of data requests, and everyone
4 really got into this case and learned a lot about it. So,
5 I want to thank everyone for that effort. It was
6 significant.

7 And, in closing, I'd like to say that
8 the Company feels strongly that the rate request that's
9 reflected in the Settlement Agreement will result in just
10 and reasonable rates for the Company's customers. The
11 Company is sensitive to the impact of that on its
12 customers and take significant efforts to mitigate those
13 costs where possible. As you've heard, there has been
14 extensive testimony about the capital improvements that
15 have been made and the increased operating costs that I
16 think, in many ways, are common to, you know, all
17 utilities. The cost of electricity is expensive and going
18 up, and as well as other types of costs that Ms. Hartley
19 has mentioned.

20 The Company further believes that now is
21 the time to consolidate rates. It's the time to do it and
22 move forward, and we're pleased that that is part of the
23 Settlement Agreement. And, we're very hopeful that the
24 Commission will approve the Settlement Agreement in its

1 entirety. Thank you.

2 **CHAIRMAN GETZ:** All right. Thank you.

3 We'll close the hearing and take the matter under

4 advisement.

5 **(Hearing ended at 12:16 p.m.)**

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