

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 9, 2005 - 10:05 a.m.
Concord, New Hampshire

RE: **DW 05-072**
PENNICHUCK EAST UTILITY, INC.:
Notice of intent to file rate schedules.
(Hearing regarding temporary rates)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Michael D. Harrington

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

ORIGINAL

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WITNESS PANEL: **BONALYN J. HARTLEY**
MARK A. NAYLOR

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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, Pennichuck East Utility, Inc., petition for a permanent and temporary rate increase. On June 16, the Commission issued an order scheduling a prehearing conference and temporary rate hearing. PEU is seeking an overall increase in annual revenues in the amount of \$779,027, or 24.99 percent. Until permanent rates are set, PEU requested that the Commission approve a temporary rate increase in the amount of \$381,565, or 12.25 percent. And, the hearing on that temporary rate request is before us this morning. Can we take appearances please.

MS. KNOWLTON: Good morning, Chairman Getz and Commissioners Morrison and Harrington. My name is Sarah Knowlton. And, I'm with the law firm of McLane, Graf, Raulerson & Middleton. And, I'm here today on behalf of Pennichuck East Utility, Inc. And, with me, to my immediate right, is Bonalyn Hartley, who is the Vice President for Administration, and to her right is Donald Ware, who is the Senior Vice President for Operations and the Chief Engineer.

CHAIRMAN GETZ: Good morning.

MS. ROSS: Good morning, Commissioners.

1 Anne Ross, with the Office of Consumer Advocate, and with
2 me today is Ken Traum, Steve Merrill, and Rorie
3 Hollenberg. And, Steve Merrill has recently joined our
4 office, so happy to have him aboard.

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

6 **CHAIRMAN GETZ:** Good morning.

7 **CMSR. HARRINGTON:** Good morning.

8 **CHAIRMAN GETZ:** Welcome back.

9 **MR. MERRILL:** Thank you.

10 **MS. THUNBERG:** Good morning,
11 Commissioners. Marcia Thunberg, on behalf of Staff. And,
12 with me today is Mark Naylor, Jim Lenihan, and Jayson
13 LaFlamme. And, Mr. Naylor will be participating in a
14 panel with Ms. Hartley today, presenting the settlement on
15 temporary rates. Thank you.

16 **CHAIRMAN GETZ:** Is there anything that
17 we need to address before we hear from the panel?

18 (No verbal response)

19 **CHAIRMAN GETZ:** Okay. Hearing nothing,
20 then if the witnesses could take the stand please.

21 (Whereupon **Bonalyn J. Hartley** and **Mark**

22 **A. Naylor** was duly sworn and cautioned

23 by the Court Reporter.)

24 **BONALYN J. HARTLEY, SWORN**

[Witness panel: Hartley|Naylor]

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MARK A. NAYLOR, SWORN

DIRECT EXAMINATION

BY MS. KNOWLTON:

Q Ms. Hartley, would you state your full name for the record please.

A (Hartley) Yes. Bonalyn J. Hartley.

Q By whom are you employed?

A (Hartley) Pennichuck Corporation, and, in this case, its subsidiary, Pennichuck East Utility.

Q Would you describe your responsibilities with Pennichuck East?

A (Hartley) Yes. I'm Vice President of Administration for Pennichuck East, or Pennichuck Corporation and its subsidiaries, which include Pennichuck Water, Pennichuck East, Pittsfield Aqueduct. And, with that, I'm also in charge of and responsible for rates and regulatory matters.

Q Would you briefly describe your educational background?

A (Hartley) Surely. I have a Bachelor of Science degree from Riviere College in Business Management. I attended the NARUC utility seminar on -- for ratemaking many years ago. And, I have testified before this Commission in several cases.

[Witness panel: Hartley|Naylor]

1 Q Did you file testimony in this case in support of the
2 Company's request for temporary rates?

3 A (Hartley) Yes, I did.

4 **MS. KNOWLTON:** And, the parties have
5 agreed to mark Ms. Hartley's direct prefiled testimony in
6 support of temporary rates as Exhibit 1.

7 BY MS. KNOWLTON:

8 Q Ms. Hartley, --

9 **CHAIRMAN GETZ:** It will be so marked.
10 (The document, as described, was
11 herewith marked as **Exhibit 1** for
12 identification.)

13 **MS. KNOWLTON:** Right. Sorry.

14 **CHAIRMAN GETZ:** Okay.

15 BY MS. KNOWLTON:

16 Q Ms. Hartley, looking at Exhibit 1, is this the
17 testimony that you filed in this case?

18 A (Hartley) Yes, it is.

19 Q And, do you have any corrections to make to this
20 testimony?

21 A (Hartley) No, I do not.

22 Q Would you please summarize this testimony.

23 A (Hartley) I would be glad to. The Company prepared
24 testimony, under my direction, for temporary rates.

[Witness panel: Hartley|Naylor]

1 We were seeking additional operating revenue of about
2 \$779,000. And, this request will increase, as
3 originally represented, for a permanent increase of
4 24.99 percent, which would have annual revenues of
5 about \$3.1 million.

6 Currently, the Company earns an overall
7 -- is allowed to earn an overall return of 8.3
8 percent, based on 11 percent return on equity. And,
9 that was per order dated November 21st, 1997, Order
10 Number 22,792. The Company did not earn its allowed
11 rate of return during the test year, which is as of
12 December 31st, 2004. Our rate of return was
13 4.12 percent, or 418 basis points below the allowed
14 rate of return of 8.3 percent. So, we are
15 respectfully requesting a temporary rate increase,
16 originally in my filing, of 12.25 percent, which
17 represented 50 percent of the deficiency or the
18 increase that would be needed as of 12/31/2004.

19 That was just an arbitrary number I had
20 picked at that time, because it had been some time
21 since we had been in, since we've acquired the
22 system, in for rate relief. This would generate --
23 This was going to generate about \$381,000 additional
24 revenues, and would be effective we had asked for

[Witness panel: Hartley|Naylor]

1 June 1st, 2005. And, since then, Staff and the
2 Company has settled on another effective date, as
3 well as the temporary rate increase.

4 Q Okay. Ms. Hartley, the 12.25 percent temporary rate
5 increase that the Company initially requested in this
6 case was based on its -- the filing seeking the
7 24.49 percent increase in permanent rates, is that
8 right?

9 A (Hartley) That is correct.

10 Q Okay. And, can you explain why it is that the
11 Company requested the 50 percent increase when it
12 made its filing for temporary rates?

13 A (Hartley) Yes, I can. When we acquired the
14 Pennichuck East Utility systems in 1998, from the
15 former Consumers Water Company, at that time we
16 awarded or the Commission approved subsequently a
17 10 percent rate reduction for all the rate groups,
18 because there was uncertainty, given the synergies
19 created by acquiring the system, as well as the fact
20 that we didn't know ourselves what the operating
21 costs would be going forward. And, for a time, a
22 period of time, we did well.

23 There are three different rate groups in
24 Pennichuck East. There's a Rate Group A, a Rate

[Witness panel: Hartley|Naylor]

1 Group B, and a Rate Group L.

2 Q And, that's of general metered customers, Ms.
3 Hartley?

4 A (Hartley) Yes. And, so, when I prepared the case,
5 given the complexity of the three different rate
6 groups, given the fact that it had been some time
7 since anyone had reviewed the data backing these
8 rates, and, obviously, the Staff has not had time to
9 review the numbers and the information contained
10 within the case, I felt it was fair to ask for
11 50 percent of the needed request at that time for
12 permanent rates. So, that -- I felt that was fair,
13 given the fact that we had the three different rate
14 groups, and we don't know exactly how that's all
15 going to be settled in the end.

16 Q Ms. Hartley, can you describe where this -- the
17 different three rate groups and where the customers
18 are that each of them serve?

19 A (Hartley) Yes. If you just give me a second here,
20 though. The Rate Group A is primarily composed of
21 the Maple Hill system, in Derry; Wesco in Hooksett;
22 Avery, Harvest Village, Pine Haven, R&B, Springwood
23 Hills in Londonderry; Green Hills in Raymond;
24 Hardwood in Windham. And, I'd like to mention at

[Witness panel: Hartley|Naylor]

1 this time that, when we filed the temporary rates for
2 the systems, that we need to include three systems
3 that were just recently acquired and approved by the
4 Commission. And, that's Castle Reach, Fletcher's
5 Corner, and Lamplighter Village. So, when I file the
6 tariff pages, those will also be included. Windham
7 and Derry, we have Oakwood. And, in Lee, we have
8 Thurston Woods. And, that's in Schedule GM-A.

9 GM-L is primarily --

10 Q Excuse me, Ms. Hartley.

11 A (Hartley) Sure.

12 Q When you say that's -- that's to the Company's filing
13 in this case?

14 A (Hartley) I'm sorry?

15 Q When you say that -- when you're referring to that
16 schedule, that schedule is not something that's been
17 marked as an exhibit today?

18 A (Hartley) No. No, I'm just giving information to the
19 Commissioners relative to the scope of the various
20 service areas and what groups are included in the
21 various general metered rates.

22 Q Okay.

23 A GM-L is for the Town of Litchfield, and includes the
24 Sawmill service area. GM-B, which is the B rate, as

[Witness panel: Hartley|Naylor]

1 I said, there's three different rate groups, is
2 composed of Atkinson, and in Derry, East Derry in
3 Farmstead. In Hooksett, Smythe Woods. In
4 Londonderry, Brook Park, Cohas Landing, Londonderry
5 South, which includes Birchfield, Ministerial, and
6 Nesenkeag.

7 In Pelham, it's Gage Hill. North
8 Pelham, Stonegate/Williamsburg. Plaistow is Rolling
9 Hills. In Raymond, we have Liberty Tree. Sandown,
10 we have Beaver Hollow. And, in Windham, we have
11 Goldenbrook, which includes Shady Brook, W&E. In
12 Bow, we have White Rock Senior Living Community and
13 also Pines of Bow.

14 Q Are there other classes of service that Pennichuck
15 East provides?

16 A (Hartley) Yes. We have municipal fire protection,
17 which is in Londonderry. And, we have another
18 municipal fire protection for Litchfield and Pelham.
19 And, in addition to that, we have private fire
20 protection service for various -- for the various
21 communities.

22 **MS. KNOWLTON:** The Company would propose
23 marking as "Exhibit 2" a "Report of Proposed Rate Changes
24 - Temporary Rates". I have provided the Commissioners

[Witness panel: Hartley|Naylor]

1 with copies of this exhibit, this proposed exhibit.

2 **CHAIRMAN GETZ:** Okay. The one-page
3 document "Report of Proposed Rate Changes" will be marked
4 for identification as "Exhibit Number 2".

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

8 **MS. KNOWLTON:** Thank you.

9 BY MS. KNOWLTON:

10 Q Ms. Hartley, are you familiar with this document?

11 A (Hartley) Yes.

12 Q Was it prepared by you or under your direction?

13 A (Hartley) Yes.

14 Q Would you explain what this document reflects?

15 A (Hartley) This document reflects our agreement with
16 Staff in settlement for temporary rates of a
17 9 percent temporary rate increase across the board.
18 In other words, each of the rate groups will receive
19 a 9 percent increase at this time. The effective
20 date would be June 16th. And, the General Metered
21 customers will experience a 9 percent increase
22 resulting in \$256,560 worth of additional revenues.
23 The private fire protection will receive the same
24 9 percent, resulting in \$8,665 worth of additional

[Witness panel: Hartley|Naylor]

1 revenues. And, the fire protection for hydrants for
2 municipal will also receive 9 percent, for an
3 additional \$15,225 of additional revenue. The total
4 result will be \$280,445 of additional revenue,
5 representing a nine percent across-the-board
6 temporary rate increase effective June 16th, 2005.

7 Q On what -- Is the Company requesting the rate
8 increase on a service rendered basis or a bills
9 rendered basis?

10 A (Hartley) It will be on a service rendered basis.

11 Q And, given that the proposed effective date falls mid
12 month, can you explain for the Commissioners how the
13 Company will be able to implement any rate increase
14 that was approved, to ensure that it actually
15 happened on June 16th?

16 A (Hartley) Yes. We read meters for the Pennichuck
17 East system weekly, we bill monthly. So, there's
18 certain groups, depending on their location, that are
19 read certain weeks of the month. We will be
20 prorating the bills using the June 16th service date.
21 For example, if we read the meter on June 20th, there
22 would only be four days that would be calculated on a
23 prorated basis at the new rate.

24 **MS. KNOWLTON:** The Company would ask

[Witness panel: Hartley|Naylor]

1 that the document entitled "Average Single Family
2 Residential Bill by Rate Group" be marked for
3 identification as "Exhibit 3".

4 **CHAIRMAN GETZ:** Be so marked.

5 (The document, as described, was
6 herewith marked as **Exhibit 3** for
7 identification.)

8 BY MS. KNOWLTON:

9 Q Ms. Hartley, are you familiar with this document
10 that's been marked as "Exhibit 3"?

11 A (Hartley) Yes, I am.

12 Q Was this prepared by you or under your direction?

13 A (Hartley) Yes, it was.

14 Q Would you explain what this document demonstrates?

15 A (Hartley) Yes. Again, we're talking about the three
16 different rate groups. What we did is we calculated
17 what the average consumption would be on an annual
18 basis for these three different rate groups as of
19 12/31/2004 for the single family residential
20 customer. And, then, we calculated the current
21 rates. And, you will see here we have "Pennichuck
22 East Utility Group L", and the meter rate is \$12.49
23 per month at a current rate, with a volumetric charge
24 of 4.145 per hundred cubic feet. And, their average

[Witness panel: Hartley|Naylor]

1 bill at this point, as of 12/31/2004, based on 100.64
2 hundred cubic feet of water is \$567.03. Applying the
3 9 percent temporary rate increase, it results the
4 same -- it would result in an increase to the meter
5 charge and the volumetric charge, and would be
6 \$618.07 for an annual bill.

7 And, then, similarly, I have calculated
8 the Pennichuck East Utility Group A, and then Group
9 B. So, Group A would result -- go from \$433.87 to
10 \$472.91. And, then, Group B would be \$591.41, and
11 would result in \$644.64 of annual revenues, based on
12 their 2004 consumption.

13 Q Ms. Hartley, do you believe that the proposed
14 settlement of a 9 percent increase in temporary rates
15 applied across the board to each of the rate classes
16 of Pennichuck East Utility would result in just and
17 reasonable rates on a temporary basis?

18 A (Hartley) Yes, I do. Again, we have three different
19 rate groups. The case, as you can understand, is
20 complex. It's going to take Staff and the Company to
21 work together to work out a permanent resolution.
22 And, given all of the conditions, and the fact that
23 we haven't been in since 1998, it's appropriate that
24 a 9 percent would be fair and just.

[Witness panel: Hartley|Naylor]

1 **MS. KNOWLTON:** Thank you. I have no
2 further questions for Ms. Hartley.

3 **CHAIRMAN GETZ:** Ms. Thunberg. Are we
4 going to do both directs or do you want to do cross at
5 this point? It's up to the parties.

6 **MS. THUNBERG:** Okay. I guess I will do
7 direct at this point. Thank you.

8 BY MS. THUNBERG:

9 Q Mr. Naylor, if you could please state your name and
10 business address for the record.

11 A (Naylor) Yes. My name is Mark Naylor. And, my
12 business address is 21 South Fruit Street, Suite 10,
13 Concord, New Hampshire.

14 Q And, by whom are you employed?

15 A (Naylor) The New Hampshire Public Utilities
16 Commission.

17 Q And, at the Commission, what does your job entail?

18 A (Naylor) I am the Director of the Commission's Gas
19 and Water Division. And, I supervise a staff, and
20 I'm responsible for all the staff workload for gas,
21 steam, water and sewer dockets.

22 Q And, does part of your work entail reviewing rate
23 cases?

24 A (Naylor) Yes.

[Witness panel: Hartley|Naylor]

1 Q And, have you, prior to today, testified before this
2 Commission?

3 A (Naylor) Yes.

4 Q And, with respect to this docket, have you -- or, can
5 you please tell the Commission what you have reviewed
6 of this docket?

7 A (Naylor) Well, personally, I haven't reviewed the
8 entire filing, you know, in a lot of depth. The
9 issue before us now, obviously, is temporary rates.
10 The Company has made a request for temporary rates at
11 a level -- I believe it was about 12 and a half
12 percent over current rates. And, we made an offer to
13 the Company to settle temporary rates based on our
14 preliminary review of their test year.

15 Q Is it true that the Company files annual reports?

16 A (Naylor) Yes.

17 Q And, as part of your job responsibilities, do you
18 review those reports?

19 A (Naylor) I do.

20 Q And, I'm sorry for leading questions, but, as part of
21 your assessment of whether 9 percent is something
22 that would be appropriate here, did you rely in your
23 review of the information in those annual reports?

24 A (Naylor) Yes, I did. Yes. We run an analysis of the

[Witness panel: Hartley|Naylor]

1 annual reports every year for all the utilities.
2 And, in this particular case, the Company has used a
3 test year of 2004. We have reviewed their 2004
4 annual report, and calculated a return on rate base
5 that is well below their last authorized rate of
6 return on rate base. So, clearly, the Company is in
7 an earnings deficiency.

8 Q Did you also review discovery in this docket?

9 A (Naylor) For temporary rates, yes.

10 Q Now, Ms. Hartley has indicated how the 9 percent is
11 going to be applied to the GM-A, GM-B, and GM-L rate
12 groups. Can you comment on whether Staff has a
13 position as to whether a particular rate increase is
14 appropriate or a uniform rate increase is appropriate
15 for the subclasses?

16 A (Naylor) Yes. We don't know yet whether what the
17 Company has proposed in its permanent case is
18 appropriate or not. And, the issue there is the fact
19 that there are three rate groups that have different
20 rates. They are based on a Commission order, I
21 believe, in 1991. And, the real issue there is the
22 Company does not keep its income statement data by
23 rate group. And, clearly, there's a pretty big
24 difference in the rates, particularly with the A rate

[Witness panel: Hartley|Naylor]

1 being much lower than the B and L rates. So, the
2 issue we need to look at in the case is, "is it
3 appropriate to provide any kind of rate increase on
4 an across-the-board basis, the same percentage
5 increase for all three groups, or is there some other
6 way more appropriate to do it?" And, that's
7 something that we'll look at in the permanent case
8 and make a recommendation on it at the appropriate
9 time.

10 But, for purposes of temporary rates,
11 we've simply agreed to provide for an
12 across-the-board increase for the three rate groups.
13 And, whatever comes out at the end of the case, the
14 reconciliation will take care of that.

15 Q Well, I was going to ask you about how the
16 reconciliation happens. Thank you for the segue. If
17 you could just please recap on what, I guess,
18 calculations, gyrations Staff and the Company and the
19 parties go through in having a temporary rate applied
20 in June, and then a ultimate permanent rate
21 determined some months later. What generally
22 happens?

23 A (Naylor) Well, a calculation is made, based on the
24 effective date of temporary rates, and based on when

[Witness panel: Hartley|Naylor]

1 the Commission issues its final order in the
2 proceeding. At the point where temporary rates are
3 effective, that essentially is the date at which
4 permanent rates are effective. And, depending on how
5 much time has passed, a calculation is made to
6 determine how much the Company is entitled,
7 additional revenues the Company may be entitled to,
8 based on the final decision on final permanent rates,
9 or how much the Company may have to refund to
10 customers, if the permanent rate is lower than
11 temporary rates. But it's a function of how much
12 time has passed and the billing cycles and those type
13 of things. But usually it boils down to a number,
14 which is then either refunded or recouped from
15 customers.

16 Q Now, is it Staff's expectation that the Company will
17 do that reconciliation on a per rate group category?

18 A (Naylor) I guess it depends on what the Commission's
19 final order is. If the Commission is comfortable
20 with what the Company has proposed in the case, which
21 is apply the percentage increase equally to the rate
22 groups, then it all stays proportional. If the
23 Commission decides on something else ultimately, then
24 we'd have to look at a different way of calculating

[Witness panel: Hartley|Naylor]

1 the difference between permanent rates and temporary
2 rates.

3 Q Can I just have you lastly touch upon some of the
4 benefits of implementing a temporary rate, such as
5 this 9 percent, at this point?

6 A (Naylor) Sure. I think it's clear from looking at
7 past Commission orders over the years that, in, cases
8 particularly with water cases, water companies, where
9 you tend to have greater percentage increases in
10 rates in rate proceedings than in some of the other
11 utilities, the other industries, typically the
12 Commission has favored, in a case where a company has
13 a proposed percentage increase that's, say, for
14 example, double digits, sometimes 20 percent or more,
15 to put into place some increase for temporary
16 purposes.

17 It really accomplishes two things.
18 Number one, it helps to mitigate the rate shock that
19 customers will see, once the permanent rates are
20 finally determined. And, number two, it helps to
21 reduce the amount of recoupment that's necessary for
22 customers, because of the reconciliation back to the
23 effective date of temporary rates.

24 So, in this particular case, we have a

[Witness panel: Hartley|Naylor]

1 company requesting a permanent rate increase of about
2 25 percent. And, for settlement purposes for
3 temporary rates, we've agreed on an increase of
4 9 percent. And, that will certainly help reduce the
5 amount of the recoupment and help to reduce the rate
6 shock at the conclusion of the proceeding.

7 Q And, does Staff have a position whether this
8 9 percent temporary rate is just and reasonable?

9 A (Naylor) Yes. I think it's a reasonable resolution
10 of the issues with respect to the Company's filing
11 for temporary rates. Certainly allows us to focus
12 more quickly on the permanent case. We've got a
13 number of issues to look at in the permanent case.
14 So, certainly, the rate that, if this is approved, it
15 would be reasonable for the pendency of the case.

16 **MS. THUNBERG:** Thank you. Staff has no
17 further direct. And, we'll just wait its turn for cross.

18 **CHAIRMAN GETZ:** I have a question,
19 though, Ms. Thunberg. The agreement between the Company
20 and Staff that's represented on Exhibit 2 was this, with
21 the 9 percent increase, is the agreement reduced to
22 writing in any other document?

23 **MS. THUNBERG:** No, there is no, per se,
24 "settlement agreement". It was just a verbal agreement

[Witness panel: Hartley|Naylor]

1 among the Staff and the Company that a 9 percent service
2 rendered, implementation date of June 16th, would be the
3 elements of the agreement.

4 **CHAIRMAN GETZ:** Okay.

5 **MS. KNOWLTON:** And, if I might add, just
6 applied across the board to all of the rate groups and
7 classes.

8 **CHAIRMAN GETZ:** Thank you. Ms. Ross, do
9 you have questions for the panel?

10 **MS. ROSS:** Yes. And, just by way of
11 further clarification, the agreement was between Staff,
12 Pennichuck East, and the Office of Consumer Advocate. We
13 joined in that agreement. I do have just a few questions.

14 **CROSS-EXAMINATION**

15 BY MS. ROSS:

16 Q Mr. Naylor, I believe you're familiar with water
17 rates generally for residential customers throughout
18 the state. And, I wonder if you could comment on
19 whether the rates, ranging from a high of \$644 to a
20 low of \$472, for an average residential customer
21 annually, compare above or below what you might
22 consider an average rate for New Hampshire? Just to
23 give the Commission some sense of where these rates
24 fall in that.

[Witness panel: Hartley|Naylor]

1 A (Naylor) Sure. I can do that. I would caution
2 anyone who might listen that comparing rates from
3 company to company can be a little tricky with water
4 companies, because there are differences resulting
5 from a variety of things. Not the least of which is
6 the quality of the water, the raw water that they may
7 be either getting from ground water sources or
8 surface water, could be the age of the distribution
9 system, could be a number of other factors, which
10 render comparisons of rates a little bit tricky.

11 With that having been said, I would say
12 the B and the L rates are probably above the median,
13 and this is just kind of reaching back into my memory
14 here from when I last looked at statewide rates for
15 regulated public utilities. Would caution that
16 municipal systems are not a part of the equation
17 here. The A rate is probably more near the middle,
18 middle of the range. So, that's about --

19 Q Thank you. I understand it's a rough approximation.
20 Ms. Hartley, I have a question for you. When was the
21 last rate case for Pennichuck East, if you recall?

22 A (Hartley) I don't. We have not, this is our first
23 filing since 1998, when we came in and acquired the
24 system.

[Witness panel: Hartley|Naylor]

1 Q So, in 1998, you set rates --

2 A (Hartley) That is correct.

3 Q -- based on your acquisition with Consumers, was it?

4 A (Hartley) Correct.

5 Q And, so, rates have not changed since 1998 for this

6 --

7 A (Hartley) Other than the 10 percent reduction in
8 rates at the time we acquired the system.

9 MS. ROSS: Thank you. I have no further
10 questions.

11 CMSR. HARRINGTON: Just one question for
12 Mr. Naylor.

13 BY CMSR. HARRINGTON:

14 Q You said you reviewed the test year and the annual
15 reports, and that Pennichuck East had originally come
16 in with a 12 and a half percent temporary rate
17 increase. Given that their permanent request is so
18 high, almost 25 percent, what was the reason for
19 lowering the temporary rates from the requested 12
20 and a half to 9 percent?

21 A (Naylor) I looked at a number of factors. In the
22 Company's reports, looked at some of their expenses.
23 As I said, I haven't reviewed the permanent case in a
24 lot of depth, but did look at some items. And,

[Witness panel: Hartley|Naylor]

1 certainly, my staff has, and we talked about some of
2 the issues that we foresaw in this particular case.

3 One of the things that we took note of
4 was the Company's request for a particular return on
5 equity. I think there were two or three areas of
6 expense that we thought might be, you know, areas
7 that we should look at more closely in the permanent
8 case. I can't recall any other areas that really
9 stood out.

10 But we felt that just, you know, a very
11 rough analysis for temporary rate purposes that, you
12 know, the Company has come in and asked for half of
13 their permanent increase as a temporary rate. We
14 stuck to that methodology in offering a 9 percent
15 increase. So, clearly, just with some real rough,
16 you know, back-of-the-envelope calculations, right
17 now we think the rate increase could probably be
18 somewhere in the 18 percent -- permanent increase
19 would probably in the 18 percent range. But that's
20 just, you know, a very brief analysis that is always
21 a part of temporary rates, and that we never really
22 go deeply into the analysis in temporary rates.

23 Q And, is the approximately 50 percent of your
24 back-of-the-envelope analysis, is that pretty

[Witness panel: Hartley|Naylor]

1 standard for water cases for temporary rates?

2 A (Naylor) I don't recall, I don't recall doing it that
3 way before, in cases where we simply -- the Company
4 simply takes what they project is their permanent
5 increase and cut it in half. I think, probably more
6 typically, the companies request or we settle on
7 current rates as temporary rates, with no increase.
8 But it depends. I think the biggest factor is the
9 size of the permanent increase, in this case,
10 25 percent. Clearly, the Company is earning below
11 its rate of return, last found rate of return. It
12 makes sense to put an increase in place for temporary
13 rates.

14 **CMSR. HARRINGTON:** Thank you. No
15 further questions.

16 BY CHAIRMAN GETZ:

17 Q Ms. Hartley and Mr. Naylor, if you could turn to
18 Page 4 of Ms. Hartley's testimony. It's Exhibit 1.

19 **WITNESS HARTLEY:** Sarah, could I have --
20 I don't have Page 4.

21 (Atty. Thunberg handing document to
22 Witness Hartley.)

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

24 BY CHAIRMAN GETZ:

[Witness panel: Hartley|Naylor]

1 Q And, if you start on line 15, and then carrying over
2 to line 2 of Page 5, it says "For the test year ended
3 December 31, 2004, the Company's actual return on
4 investment was 4.12 percent as shown in Section 8,
5 Schedule 4, Attachment A. This is 418 basis points
6 below the Company's current overall rate of return of
7 8.30 percent." I'm wondering if you've done the
8 calculation, and, if you haven't, I guess I'd like to
9 see it, is if you added the 9 percent increase for
10 temporary rates, what kind of return on investment
11 that would result in? Do you have that number?

12 A (Hartley) No, I do not. I could provide it
13 subsequent, unless Mark has it?

14 A (Naylor) No, I don't. I don't have that.

15 **CHAIRMAN GETZ:** Okay. Well, let's
16 reserve Exhibit 4 then for what the resulting return on
17 investment would be.

18 **(Exhibit 4 reserved)**

19 BY CHAIRMAN GETZ:

20 Q Would it be -- Would either or both of you be
21 confident in saying that it would be a number well
22 below the current overall authorized rate of return
23 of 8.3 percent?

24 A (Hartley) Yes.

[Witness panel: Hartley|Naylor]

1 A (Naylor) Yes, I'm sure it would be. Keeping in mind,
2 of course, that ultimately, when the permanent rate
3 is decided, that rate is reconciled back to the
4 effective date of temporary rates. So, even with
5 that number being less than the last found
6 authorized, the Company ultimately is made whole,
7 once the Commission issues its final decision.

8 **CHAIRMAN GETZ:** Okay. I have no further
9 questions. Is there -- Well, before we allow redirect,
10 sir, are you seeking to participate?

11 **MS. KNOWLTON:** Chairman Getz, this is
12 Mr. Robinson, who's the Company's expert witness on
13 depreciation.

14 **CHAIRMAN GETZ:** Okay.

15 **MS. KNOWLTON:** And, he's joining us for
16 the technical session following this temporary rate
17 hearing.

18 **CHAIRMAN GETZ:** Okay. Thank you.

19 **MS. KNOWLTON:** So, sorry for not
20 identifying him earlier.

21 **CHAIRMAN GETZ:** Okay. Just wanted to
22 make sure we were allowing all due process. Do have any
23 questions for the panel?

24 **MS. KNOWLTON:** I have none. Thank you.

[Witness panel: Hartley|Naylor]

1 **CHAIRMAN GETZ:** Ms. Thunberg?

2 **MS. THUNBERG:** Yes, I do. As a group,
3 Staff is going to start redirect and a little bit of
4 cross.

5 **REDIRECT EXAMINATION**

6 BY MR. LENIHAN:

7 Q Mr. Naylor, the Chairman just asked if a calculation
8 was performed to show what the rate of return would
9 be should a temporary rate level be approved at
10 what's recommended by the panel, which is the
11 9 percent. I think his question was, would that
12 bring the Company up to a rate of return which would
13 close the deficiency, as stated in Ms. Hartley's
14 testimony? What would the -- We don't have a
15 calculation at the present time, but would it not
16 stand to reason that the -- if the level, the revenue
17 level is half what the Company is proposing in
18 permanent rates, that the rate of return should be
19 somewhere between about half of what the deficiency
20 was, as stated in the testimony?

21 A (Naylor) Probably somewhere near half. But we don't
22 know what that -- what the cost of capital the
23 Commission will find appropriate in this case. The
24 cost of capital that's sort of the benchmark here I

[Witness panel: Hartley|Naylor]

1 believe was determined at the time of the acquisition
2 of these systems by Pennichuck East in 1998. I
3 believe the cost of capital was reset at that time,
4 although I don't think rates were actually adjusted,
5 except for the 10 percent reduction, but I believe
6 the cost of capital was established. So, with that
7 caveat, it would be somewhere in the middle, yes.

8 **CROSS-EXAMINATION**

9 BY MS. THUNBERG:

10 Q Ms. Hartley, I just had one simple question. You had
11 listed off all of the water systems that are under
12 the umbrella of PEU under the various rates. But I
13 just wanted to verify, PEU doesn't have any wholesale
14 contracts, does it?

15 A (Hartley) I do not believe so, no. I had to think
16 for a minute. We purchase water --

17 Q Of which company.

18 A (Hartley) We purchase water from other entities, but
19 we do not have any wholesale contracts, no.

20 Q So, the universe of customers that are affected by
21 this rate case for PEU are on Exhibit 3, under the
22 rate classes of the L, A, and B?

23 A (Hartley) Yes.

24 Q Is that correct?

[Witness panel: Hartley|Naylor]

1 A (Hartley) That's correct.

2 MS. THUNBERG: Thank you. The Staff has
3 no further questions.

4 CHAIRMAN GETZ: Ms. Ross?

5 MS. ROSS: We have no further questions.

6 CHAIRMAN GETZ: Well, then, if there's
7 nothing else for these witnesses, you're excused. Thank
8 you. Is there any objection to striking the
9 identifications and entering the exhibits as full
10 exhibits?

11 MS. KNOWLTON: No.

12 MS. THUNBERG: No.

13 CHAIRMAN GETZ: They will be entered as
14 full exhibits. Is there anything else that we need to
15 address this morning?

16 MS. KNOWLTON: I have nothing further.

17 CHAIRMAN GETZ: Okay. Hearing nothing,
18 then we will close this hearing and take the matter under
19 advisement. Thank you.

20 (Hearing ended at 10:45 a.m.)

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