

1 STATE OF NEW HAMPSHIRE
2 PUBLIC UTILITIES COMMISSION

3

4 June 2, 2009 - 10:11 a.m.
Concord, New Hampshire

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7 RE: DW 08-086
EASTMAN SEWER COMPANY:
8 Notice of Intent to file a Petition for
Financing and Rate Schedules.
9 (Hearing regarding permanent rates)

10

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

12

13 Jody Carmody, Clerk

14

15 APPEARANCES: Reptg. Eastman Sewer Company:
Stephen P. St. Cyr

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

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

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2

I N D E X

3

PAGE NO.

4 WITNESS PANEL: STEPHEN P. ST. CYR
MARK A. NAYLOR

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13 E X H I B I T S

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15 7 Stipulation Agreement on Permanent Rates 4

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21 Ms. Thunberg 26

22 Mr. St. Cyr 27

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1 PROCEEDINGS

2 CHAIRMAN GETZ: Okay. Good morning.

3 We'll open the hearing in docket DW 08-086. On August 18,

4 2008, Eastman Sewer Company filed revised tariff pages

5 designed to increase annual revenues by 46 percent over

6 authorized rate levels, and it also requested temporary

7 rates, and authorization pursuant to RSA 369 to borrow

8 \$238,000 in order to finance system improvements. And, a

9 prehearing conference was held in this proceeding on

10 October 29, 2008, and subsequently a procedural schedule

11 was issued that moved on several tracks. As a result of

12 which, temporary rates were approved on December 2008;

13 financing was approved on May 21, 2009. And, the purpose

14 of the hearing today is to consider a settlement proposed

15 by the Company and Staff with respect to permanent rates.

16 So, let's take appearances please.

17 MR. ST. CYR: Good morning. My name is

18 Stephen P. St. Cyr, and with me is Brian Harding and Jim

19 Coffey, representing Eastman Sewer Company.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. BELOW: Good morning.

22 CMSR. MORRISON: Good morning.

23 MS. THUNBERG: Good morning,

24 Commissioners. Marcia Thunberg, on behalf of Staff, and

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[WITNESS PANEL: St. Cyr|Naylor]

1 with me today is Mark Naylor, Jayson LaFlamme, and Doug
2 Brogan. And, I'll keep standing, because I do have a
3 preliminary matter to bring to your attention.

4 As you stated, the Staff and Company
5 have a Stipulation Agreement to present. And, we intend a
6 panel of Mr. Naylor and Mr. St. Cyr, when you are ready.

7 CHAIRMAN GETZ: We are ready.

8 MS. THUNBERG: Staff did not reprint a
9 list of exhibits for this hearing, because we just had one
10 that we propose by agreement, and that is the Stipulation
11 Agreement on permanent rates we propose to be Exhibit 7.

12 CHAIRMAN GETZ: It so marked.

13 (The document, as described, was
14 herewith marked as Exhibit 7 for
15 identification.)

16 (Whereupon Stephen P. St. Cyr and
17 Mark A. Naylor was duly sworn and
18 cautioned by the Court Reporter.)

19 STEPHEN P. ST. CYR, SWORN

20 MARK A. NAYLOR, SWORN

21 DIRECT EXAMINATION

22 BY MS. THUNBERG:

23 Q. Mr. St. Cyr, I'll start with you. If I could just have

24 you state your name and business address for the record

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1 please.

2 A. (St. Cyr) My name is Stephen P. St. Cyr. And, my

3 business address is 17 Sky Oaks Drive, Biddeford,

4 Maine.

5 Q. And, if you could just briefly describe what services

6 your company provides.

7 A. (St. Cyr) My company provides accounting, tax,

8 management, and regulatory services primarily to

9 utilities, specifically water and sewer companies.

10 Q. And, with respect to this docket, what services have

11 you provided to Eastman?

12 A. (St. Cyr) I was involved in the initial preparation of

13 the filing. I worked with the Company in responding to

14 data requests, and worked with the Staff in reaching

15 the agreements that we've reached in the proceeding.

16 Q. And, you participated in the hearings in this docket?

17 A. (St. Cyr) Yes, I have.

18 Q. Is it fair to say that you are familiar with the

19 exhibits that have been previously marked and admitted

20 in this proceeding?

21 A. (St. Cyr) Yes.

22 Q. And, Mr. Naylor, if I could just move to you and have

23 you state for the record your name and address.

24 A. (Naylor) Yes. Mark Naylor. I'm the Director of the

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[WITNESS PANEL: St. Cyr|Naylor]

1 Commission's Gas and Water Division. And, my business
2 address is 21 South Fruit Street, Concord, New
3 Hampshire.

4 Q. And, as Director of the Gas and Water Division, if you
5 could just briefly describe your responsibilities?

6 A. (Naylor) Yes. I manage the Gas and Water staff, and am
7 responsible for the staff's work product from the Gas
8 and Water Division.

9 Q. And, with respect to this docket, if you could please
10 describe what you have overseen and done?

11 A. (Naylor) Participated fully in a review of the
12 Company's requests in this filing, and participated in
13 preparation of the Settlement Agreement that we're
14 presenting today.

15 Q. And, have you also participated in prior hearings in
16 this docket?

17 A. (Naylor) Yes.

18 Q. And, are you familiar with the exhibits that have been
19 identified and marked and admitted in this proceeding?

20 A. (Naylor) Yes.

21 Q. And, at this time, I'd like to just show you a
22 document, Mr. Naylor, and have you identify it for the
23 record please.

24 A. (Naylor) This is the Stipulation Agreement on Permanent

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[WITNESS PANEL: St. Cyr|Naylor]

1 Rates entered into between Staff and Eastman Sewer

2 Company that is under consideration this morning.

3 Q. And, did you participate or oversee people who

4 participated in drafting this document?

5 A. (Naylor) Yes, I did.

6 Q. And, you're familiar with the terms of this document?

7 A. (Naylor) I am.

8 Q. And, Mr. St. Cyr, if I could just have you identify

9 this for the record please.

10 A. (St. Cyr) This is the Stipulation Agreement on

11 Permanent Rates.

12 Q. And, did you participate in drafting this document?

13 A. (St. Cyr) Yes.

14 Q. And, I forgot to ask Mr. Naylor, but I will come back

15 to you. Mr. St. Cyr, are you aware of any changes or

16 corrections that ought to be made to this document?

17 A. (St. Cyr) No.

18 Q. And, Mr. Naylor, are you aware of any changes or

19 corrections that ought to be made to this document?

20 A. (Naylor) No.

21 MS. THUNBERG: Okay. I'll take back the
22 copy. And, the Stipulation and Agreement is what the
23 Company and Staff, by agreement, has requested to be
24 marked as "Exhibit 7".

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[WITNESS PANEL: St. Cyr|Naylor]

1 BY MS. THUNBERG:

2 Q. Mr. Naylor, I'd like to start with you please. If I

3 could have you turn to Page 1 of the Stipulation

4 Agreement, and the bottom section, which runs over to

5 Page 2, relating to permanent rates. If you can just

6 tell me when you're there.

7 A. (Naylor) I'm there.

8 Q. If you could please explain for the record what level

9 of revenue requirement Staff and Eastman are proposing

10 the Commission approve?

11 A. (Naylor) The Staff and the Company have agreed that a

12 revenue requirement of \$139,140 is appropriate for

13 Eastman Sewer Company.

14 Q. Can you please state what the overall rate of return

15 the Staff and the Company are proposing?

16 A. (Naylor) Yes. The rate of return is 9.75 percent. The

17 Company has no debt capital at this time; it's all

18 equity.

19 Q. Thank you. That partially answered my next question,

20 but I wanted to just get some background as to how the

21 Staff and the Company arrived at 9.75. If you could

22 speak to that please.

23 A. (Naylor) That is the equity return that we have agreed

24 to recently in another water utility case, so that

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1 we're simply carrying that rate over to this one. The
2 water and sewer utilities are pretty much the same
3 risk, we believe.

4 Q. Thank you. Mr. Naylor, I'd like to have you turn to
5 Page 8 of Exhibit 7, and this is a schedule that's
6 entitled "Rate Base". Do you have that before you?

7 A. (Naylor) Yes, I do.

8 Q. I'd like to draw your attention to the far right
9 column, "Proforma Rate Base". Do you see that?

10 A. (Naylor) Yes, I do.

11 Q. And, if you could just please read into the record what
12 the total plant in service is listed as?

13 A. (Naylor) \$2,486,095.

14 Q. And, the total rate base at the bottom is?

15 A. (Naylor) \$78,700.

16 Q. And, would you agree there's quite a difference?

17 A. (Naylor) Yes, I would agree to that.

18 Q. And, is there an explanation from Staff as to why
19 there's a difference?

20 A. (Naylor) Yes. The Eastman Sewer Company, in its first

21 and I believe only rate base, that goes back to the
22 early '90s, at that time the Commission found the
23 substantial majority of the plant in service was
24 appropriately treated as contributed capital. And, so,

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1 very little of the original plant is in rate base, and
2 it remains that way to this day. So, what we really
3 have here is a substantially under capitalized utility,
4 and it has been throughout its regulated life, if you
5 will.

6 Q. Thank you. Mr. St. Cyr, I'd like to ask you a few
7 questions. And, if you could just turn to Page 7, if
8 you have that before you?

9 A. (St. Cyr) I do.

10 Q. And, the percent increase that Staff and the Company
11 are proposing is a 24.41 percent overall increase in
12 revenue requirement, is that correct?

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

14 Q. And, you prepared the initial filing for permanent
15 rates in this case, is that right?

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

17 Q. And, for comparison sake, can you explain what the
18 Company initially sought for a permanent rate increase?

19 A. (St. Cyr) If you bear with me, I'm looking at the
20 original filing, and just trying to get my revenue

21 requirement calculation.

22 Q. Mr. St. Cyr, if I may help. If I said that 18.74 or a

23 22 percent, in that range, was within the range of what

24 the Company was initially requesting, would that sound

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1 about right?

2 A. (St. Cyr) The Company initially requested a roughly

3 22 percent increase. The 18.74 percent that you

4 reference is the percent increase related to the

5 temporary rates.

6 Q. And, Mr. Naylor, what Staff and the Company are

7 proposing is higher than what the Company initially

8 sought, is that correct?

9 A. (Naylor) Yes, it's slightly higher.

10 Q. And, I'd like to just have you walk through on the

11 Settlement Agreement, there were some adjustments that

12 were made. And, if you could relate those adjustments

13 and how they explain why what the Staff and the Company

14 are proposing is higher than what the Company sought,

15 if you could speak to that please?

16 A. (Naylor) Yes. The actual difference in revenues is not

17 all that significant. The recommendation in the

18 Stipulation for a rate increase here is just slightly

19 higher percentagewise than what the Company sought.

20 And, the adjustments begin on Page 9 of the Agreement,

21 and go over to the next couple of pages. I think the
22 one most significant is on Page 13, there's an
23 adjustment for property tax expense, and a series of
24 other adjustments that all net out to a slightly higher

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1 revenue requirement than the Company originally sought.

2 Q. And, if I could just follow up, Mr. Naylor, with the

3 property tax expense, is this something that relates to

4 the statewide property tax?

5 A. (Naylor) Yes, I believe that's correct.

6 Q. And, has the Department of Revenue been adjusting

7 utilities, in your experience here, upward?

8 A. (Naylor) Yes. The utilities have been seeing a

9 significant increase in the statewide property tax over

10 the last couple of years, and will continue to see

11 that. And, the normal pressure from local property

12 taxes also is an increase. So, that's detailed on

13 Attachment B, which is Page 17 of the Agreement.

14 Q. Okay. Mr. St. Cyr, if I could just turn back to you

15 and ask you if you recall the last time Eastman Sewer

16 came in for a rate case?

17 A. (St. Cyr) It was 1989, and the case was decided in

18 1990.

19 Q. Thank you. And, Mr. St. Cyr, I'd like to stay with you

20 please, and have you turn to the Temporary Rate

21 Reconciliation section, which is on Page 2 of Exhibit
22 7. And, if you could just please explain to the
23 Commissioners what Eastman is committing to regarding
24 reconciling temporary and permanent rates?

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1 A. (St. Cyr) The Company has agreed to reconcile the
2 difference between temporary and permanent rates. The
3 Company will do a calculation to determine what that
4 difference is. The Company will submit that difference
5 to the Staff for a review. And, the Company and the
6 Staff will make a joint recommendation to the
7 Commissioners as to what that amount is and what the
8 proposed recovery period for that amount should be.

9 Q. And, Mr. Naylor, if I could just ask you a question.
10 When the Company's reconciliation report comes in, is
11 it Staff's intent that they will review and provide the
12 Commissioners with a recommendation on the
13 reconciliation?

14 A. (Naylor) Yes, it is.

15 Q. And, at that point, is it Staff's understanding that
16 the Commission will then approve a reconciliation
17 amount?

18 A. (Naylor) Yes.

19 Q. Mr. St. Cyr, if I could just have you turn to Page 16
20 please of Exhibit 7. And, that's the schedule "Report

21 of Proposed Rate Change".

22 A. (St. Cyr) Okay.

23 Q. Now, I'd like to get on the record the impact to

24 customers from the proposed rate increase. And, if you

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1 could just walk us through this schedule and show us
2 how the rate is changing for customers.
3 A. (St. Cyr) Yes. This is the Report of the Proposed Rate
4 Change. It really consists of two rates; a rate for
5 the sewer service and a rate for the capital reserve.
6 And, then, we sum the two rates together to get to the
7 total that we actually bill customers. There's two
8 components. Mr. Naylor earlier talked about the
9 Company and Staff agreeing to a revenue requirement of
10 139,140, that's shown in the column identified as
11 "Proposed Revenue", and it's the third line down. That
12 represents a \$27,299 increase over the present
13 authorized level of revenues, and turns out to be a
14 24.41 percent increase. In addition to that, the
15 revenue associated with the capital reserve is 62,862,
16 and that represents a 52,854 increase over the present
17 level of authorized revenues. That represents a
18 significant increase, and that increase is -- will
19 enable the Company to pay back the principal and
20 interest on the loan that it plans to issue -- enter

21 into in order to fund the capital improvements that the
22 Commission previously approved. For a total average
23 residential customer, that rate will be \$372.06 per
24 year, and overall represents a 66.6 percent increase

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1 over the present level of rates.

2 Q. I'm sorry, Mr. St. Cyr. This \$372, does that include a
3 future step increase, did you say?

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

5 Q. So, at this point, with approval of permanent rates, do
6 you know what that amount is going to be?

7 A. (St. Cyr) The amount, with the approval of permanent
8 rates, assuming that the Commission approves what we've
9 proposed, would be \$273.27. And, what that represents
10 is the total revenue for residential customers, divided
11 by the total number of customers, plus the present
12 authorization of the capital reserve component. It's
13 those two pieces that customers would see beginning
14 with their next bill.

15 Q. And, Mr. St. Cyr, I have the tariff in front of me, and
16 I don't know if you need to refresh your recollection
17 for my next question, but I wanted to ask you to
18 compare what the temporary rate bill the customers are
19 paying now and how that compares to the \$273. Do you
20 have that figure or would you like to see the tariff?

21 A. (St. Cyr) I do have that figure. Under temporary
22 rates, the Company is currently charging its
23 residential customers \$261.68 per year. With the
24 Commission's approval of the permanent rate, that

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1 amount would go to the \$273.27, roughly an
2 \$11.59 increase over the present authorized temporary
3 rates.

4 Q. And, that's \$11 plus something per year?

5 A. (St. Cyr) \$11.59 per year.

6 Q. Yes. Mr. Naylor, with respect to the permanent rates
7 that are proposed in the Settlement Agreement, does
8 Staff have a position on the just and reasonableness of
9 those proposed rates?

10 A. (Naylor) Yes. We believe that the rates proposed in
11 the Agreement are just and reasonable.

12 Q. And, Mr. St. Cyr, does the Company have an opinion on
13 the just and reasonableness of the rates?

14 A. (St. Cyr) We also believe that the rates are just and
15 reasonable.

16 Q. Okay. And, Mr. St. Cyr, did you participate in the
17 financing portion of this docket?

18 A. (St. Cyr) I did.

19 Q. And, do you recall the capital improvements that were
20 the subject of the financing?

21 A. (St. Cyr) Yes.

22 Q. And, can you please briefly describe those for the

23 record?

24 A. (St. Cyr) The total estimated cost of the capital

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1 additions were \$344,534. And, it was for improvements
2 at West Cove B pump station, a grinder, influent flow
3 meter and pH meter, headworks modifications, including
4 engineering, building improvements, and site work.
5 Improvements at West Cove B pump station, including a
6 pump replacement, a generator, and transfer switch.
7 And, finally, improvements at West Cove A overflow
8 structure.

9 Q. And, Mr. St. Cyr, did you participate in the drafting
10 of the Financing Stipulation that was presented to the
11 Commissioners?

12 A. (St. Cyr) Yes.

13 Q. And, in that Stipulation Agreement, did the Company and
14 Staff state that any rate impact would be dealt with in
15 the permanent phase of the docket?

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

17 Q. And, when we look at Exhibit 7, Pages 3 and 4, and, in
18 particular, Paragraph D, "Step Adjustment for Capital
19 Additions", and, Paragraph E, "Step Adjustment for
20 Capital Additions as CIAC", are the capital additions

21 that you just described the capital additions that are

22 referred to in these two paragraphs?

23 A. (St. Cyr) Yes.

24 Q. Or, two sections, excuse me. And, Mr. St. Cyr, I just

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1 have another question about the step adjustments. If
2 you could just explain the mechanics that Staff and the
3 Company are proposing as to how the Company will go
4 about seeking a step adjustment to rates?

5 A. (St. Cyr) Yes. The Company, first of all, has to
6 complete the projects --

7 (Court reporter interruption.)

8 BY THE WITNESS:

9 A. (St. Cyr) The Company has to complete the projects.

10 Once the projects are completed and the costs are
11 finalized, the Company will submit the documentation of
12 those costs to the Commission Staff for review and
13 audit. Upon Staff's review, the Company and the Staff
14 would make a joint recommendation to the Commissioners
15 on the amount of the step adjustment.

16 BY MS. THUNBERG:

17 Q. Thank you. Mr. Naylor, I'd like to turn to you and
18 have you explain Sections D and E of the Stipulation
19 Agreement. And, in particular, if you could speak to
20 some of the unique treatments that Staff and the

21 Company are proposing the Commission approve?

22 A. (Naylor) Yes. What we've agreed to is, because the

23 Company has acquired a ten year financing for these

24 improvements, what we've agreed to is essentially treat

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1 the principal and interest payments on that financing
2 as revenues going into the Capital Reserve Fund, and
3 then being paid -- the loan payments being made out of
4 the Capital Reserve Fund. That's described in Section
5 D.

6 Overall, I think, as the Commission
7 considered in the financing portion of this docket, I
8 think the Company has gotten a fairly favorable loan
9 interest rate. We would prefer to see the term of it a
10 little longer than ten years. But what happens is,
11 without some unique treatment of repayment of the loan,
12 the Company would be looking at a substantial cash flow
13 deficit. Under traditional ratemaking, we would put
14 the assets into rate base, the Company would earn a
15 return on them. It would get depreciation expense in
16 its rates that would essentially equal the principal
17 payments. But, because utility assets are such
18 long-lived, the Company would have a substantial cash
19 flow deficit.

20 So, we felt that the way to deal with

21 this, in consideration that Eastman is really,
22 essentially, a nonprofit company, and is owned by a
23 nonprofit entity, that we would treat the principal and
24 interest payments as the -- it essentially forms the

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1 basis of the step adjustment revenues. And, there's no
2 return to the Company on the assets. They're simply
3 payments to be made from the capital reserve.

4 Q. Mr. Naylor, with respect to the principal and interest
5 and the term of the loan, once the loan ceases after
6 ten years, will there be a different amount applied to
7 the capital reserve?

8 A. (Naylor) Yes, there would have to be. It's not
9 explicit in the Agreement. But, it's certainly our
10 understanding that, based on this treatment, once that
11 loan is paid off, that the step adjustment revenues
12 would cease, the customers would no longer be paying
13 for that step adjustment, the assets would be
14 considered to be paid off.

15 Q. Okay. Mr. Naylor, you started touching a little bit
16 upon the treatment, but I want to move on specifically
17 and ask you, on Section E, with the CIAC treatment, if
18 you could please just describe how and why CIAC should
19 be adjusted in light of the step adjustment?

20 A. (Naylor) Yes. Because we've agreed to this rather

21 unique treatment, the Staff and the Company have agreed
22 that the assets will be placed on the books of the
23 Company, but offsetting CIAC will also be booked. So
24 that, for rate base purposes, the assets have zero

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1 value. Because the Company is going to be receiving
2 revenues from customers that are -- that are dedicated
3 to making loan payments, the Company will, at the time
4 the assets are completed, will also book essentially an
5 accounts receivable on its balance sheet, and that
6 receivable will represent a receivable of principal
7 payments from customers, is really what it amounts to.
8 That's described in Paragraph E, on Page 4. And, we
9 really feel that that's an appropriate way to treat
10 this, because of the relatively short term of the loan.

11 Q. Okay. And, I just want to have you summarize this
12 unique deviation or deviation from traditional
13 ratemaking that you've just described is not something
14 that Staff is advocating for other companies. It's
15 just because of the unique circumstances of how Eastman
16 is capitalized, is that correct?

17 A. (Naylor) That's correct. We pointed out earlier that,
18 for a company that has \$2.3 or \$2.4 million in plant in
19 service on its books, it essentially has very little,
20 if any, rate base. So, it's not generating a return,

21 it's not generating any depreciation expense. And,
22 because of the term of the loan particularly,
23 traditional ratemaking would put the Company into a
24 severe cash flow deficit. They simply would not be

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1 able to make payments on this ten year loan for these
2 improvements that are very necessary. So, that's why
3 we have agreed to this treatment.

4 Q. Mr. Naylor, if I could have you move on to Section F,
5 "Capital Reserve Fund". And, I'd just like to get on
6 the record why Staff feels that it is beneficial to
7 have this fund continued, and beneficial for the
8 Company and the customers, if you can respond to that
9 please?

10 A. (Naylor) Yes. The existing Capital Reserve Fund has
11 been in place since the Commission's final order in DR
12 90-170. Essentially, customer rates provide \$10,008
13 annually, which goes into a Capital Reserve Fund. The
14 Company has use of those funds only with specific
15 authorization from the Commission for capital items,
16 and any assets that are purchased or constructed with
17 those funds are booked as contributed. We believe it's
18 beneficial for that to continue. It's certainly not a
19 lot of funds. But I think the establishment of that
20 account has certainly been beneficial to both the

21 Company and its customers over the years.

22 Q. Mr. St. Cyr, I did not ask you any specific questions

23 on Sections D, E, and F. And, since you don't have

24 counsel of your own, I just thought I'd give you an

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1 opportunity to make any comments on these sections that

2 we just covered, if you have any.

3 A. (St. Cyr) The Company and Staff did work on this

4 particular arrangement. And, it's not significantly

5 different than the arrangement that's currently in

6 place. In the Company's perspective, you know, we're

7 essentially looking to continue the existing

8 arrangement, and believe that, in this Company's unique

9 circumstance, it's the best arrangement. The short

10 story is that they would be unable to borrow the funds

11 and to make payments on those funds, if such

12 arrangement wasn't put in place.

13 Q. And, you said "make payment on the funds", you're

14 talking about the ten year loan?

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

16 Q. Okay. And, Mr. St. Cyr, I'd like to continue with you.

17 With respect to the rate case expenses, if you could

18 just describe the mechanics of what the Company will do

19 for rate case expenses?

20 A. (St. Cyr) The Company has incurred rate case expenses.

21 It -- Upon the issuance of an order in this particular
22 proceeding, the Company will submit its rate case
23 expenses to Staff for Staff's review. Once Staff has
24 had an opportunity to review them, the Company and

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[WITNESS PANEL: St. Cyr|Naylor]

1 Staff anticipate filing a joint recommendation with
2 respect to the rate case expenditures. And, we may
3 combine that with the difference in temporary and
4 permanent rates.

5 MS. THUNBERG: Okay. Thank you,
6 Commissioners. Staff and the Company are finished with
7 our direct presentation.

8 CMSR. BELOW: A couple of questions.

9 BY CMSR. BELOW:

10 Q. Mr. Naylor, what would be the typical depreciation life
11 for the assets that would be financed with the loan?

12 A. (Naylor) I don't know exactly.

13 A. (St. Cyr) I may be better able to address that.

14 Q. Okay.

15 A. (St. Cyr) The life for the structures of the buildings,
16 for example, has a 40 year life. The life for the
17 pumps would be a 20 year life -- I'm sorry, the pumps
18 would be a 10 year life. The life of some of the
19 other, the grinder or the meters, they would vary,
20 depending on the particular asset. So, it ranges

21 really from 10 on the short side, to probably 40 on the
22 long side for the structural components of the
23 building.

24 Q. The point being that, on average, they would be

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[WITNESS PANEL: St. Cyr|Naylor]

1 significantly longer than the 10 year amortization of
2 the loan?

3 A. (St. Cyr) That is correct.

4 Q. And, would it be fair to say that most, if not all, of
5 the property owners that are served by Eastman Sewer
6 Company, Inc. have some say of the governance of it
7 through their election of directors of the Eastman
8 Community Association, a nonprofit entity?

9 A. (St. Cyr) Yes.

10 CMSR. BELOW: Okay.

11 CHAIRMAN GETZ: Okay. No other
12 questions from the Bench. Is there anything further for
13 the panel?

14 MS. THUNBERG: Yes, Staff just has a
15 follow-up, in light of Commissioner Below's question.

16 REDIRECT EXAMINATION

17 BY MS. THUNBERG:

18 Q. Mr. Naylor, when this ten year loan -- or, when the ten
19 years terminates for the loan, and the adjustments for
20 the principal and interest going into the capital

21 reserve that have been described in Section D, are you
22 foreseeing that the Company will need to come in for
23 like a rate case to readjust rates?

24 A. (Naylor) Yes. Yes. That's correct. We've structured

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[WITNESS PANEL: St. Cyr|Naylor]

1 the step adjustment and the revenues that come from the
2 step adjustment to mirror the annualized principal and
3 interest payments. So, you know, all else being equal,
4 those revenues should decrease -- should be eliminated
5 at the end of the loan.

6 MS. THUNBERG: Okay. Thank you.

7 CHAIRMAN GETZ: Okay. Then, appears
8 there's nothing other for the witnesses. So, the
9 witnesses are excused. Thank you. Any objection to
10 admitting Exhibit 7 into evidence?

11 MS. THUNBERG: No.

12 CHAIRMAN GETZ: Hearing no objection, it
13 will be admitted into evidence. And, I take it there are
14 no other procedural issues. So, opportunity for closing.
15 Ms. Thunberg.

16 MS. THUNBERG: Briefly, the Staff and
17 the Company have gone through a lengthy proceeding here,
18 looking at temporary rates and the financing and permanent
19 rates. And, from Staff's perspective, we feel that the
20 Company is good to go. And, we appreciate your

21 consideration of the Stipulation Agreement and the unique
22 treatment that we've proposed to accommodate the principal
23 and interest payments that the Company is going to need to
24 make. And, just remind the Commissioners that part of the

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1 financing portion of the docket was to cover a loan that
2 the Company had to make from its nonprofit parent just to
3 pay operating expenses. So, it's very real that Staff
4 needed to tweak their cash flow to meet the loan payments
5 that are expected.

6 The only other issue that I know that is
7 going to be coming up soon is, with respect to the
8 financing, there may be some more beneficial terms that
9 may be developing. So, we're not quite done with this
10 company yet with this proceeding. We made need to just
11 revisit modifying the financing terms that the Commission
12 has previously approved.

13 So, with that, thank you for your
14 consideration.

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

16 MR. ST. CYR: We, too, believe that
17 we're good to go. And, that we respectfully request that
18 the Commissioners approve the Settlement Agreement. We
19 appreciate Staff working with us, and look forward to your
20 order.

21 CHAIRMAN GETZ: All right. Thank you.

22 Then, we'll close the hearing and take the matter under

23 advisement.

24 (Whereupon the hearing ended at 10:48 a.m.)

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