

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

March 18, 2015 - 10:05 a.m.
Concord, New Hampshire

NHPUC APR01'15 PM 3:36

RE: DRM 14-362 RULEMAKING:
Rulemaking regarding Puc 1604.07(t),
Working Capital.
(Hearing to receive public comment)

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott

Sandy Deno, Clerk

APPEARANCES: (No appearances taken)

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

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I N D E X**PAGE NO.****PUBLIC STATEMENTS BY:**

Mr. Goodhue

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Mr. Epler

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P R O C E E D I N G

CHAIRMAN HONIGBERG: We're here this morning on DRM 14-362, a rulemaking related to Puc 1604.07(t). Much narrower than we normally talk about when we talk about rules. This hearing was originally noticed for March 9th, but it was moved, all the noticed were filed as required. The 1600 rules generally govern utility tariffs and special contracts. The rule we're here to talk about today has to do with working capital and how it's reported and calculated in rate cases. There's a proposal to change the way it's done for large companies.

Let's see. In addition to the public hearing today, we will also take the submission of written comments until March 25th. I think that sets us up.

Ms. Hollenberg, you don't need to -- do you need to set the scene in any other way than that?

MS. HOLLENBERG: No, no.

CHAIRMAN HONIGBERG: All right. We have five people who have signed in, two of whom wish to speak. And, we'll take them in the order in which they appear here. The two people are Larry Goodhue from Pennichuck and Gary Epler from Unitil.

So, Mr. Goodhue, if you want to start,

1 just make sure that microphone is close enough to you and
2 the red light is on.

3 MR. GOODHUE: Thank you very much. My
4 name is Larry Goodhue, Chief Financial Officer, Treasurer
5 and Controller, Pennichuck Water Works, Merrimack, New
6 Hampshire.

7 (Court reporter interruption.)

8 MR. GOODHUE: My name is Larry Goodhue,
9 Chief Financial Officer, Treasurer and Controller,
10 Pennichuck Water Works, Merrimack, New Hampshire. First,
11 I'd like to thank you for the opportunity to speak about
12 this proposed working capital rule. And, I also would
13 like to thank Mr. Frink for actually taking the time to
14 explain the background for the proposal that large
15 utilities be required to conduct lead/lag structures --
16 studies in support of their revenue requirement.

17 We appreciate the concern about
18 calculating working capital based on a monthly billing
19 cycle formula and how that might impact revenue
20 requirements for larger utilities. However, based on our
21 own circumstances at PWW and our revenue requirements and
22 working capital needs, we believe that concerns about
23 customers supplying excess working capital do not directly
24 apply to what our structure is, and also the fact that we

1 would be the only water utility that is affected by this
2 rule change in the State of New Hampshire.

3 In absolute terms, any rate change or
4 impact based on this would be very small. In our last
5 rate case, which was for the 2012 test year, our working
6 capital was approximately \$1.4 million, with a rate of
7 return of 5.94 percent, which yielded about \$86,000 in
8 annual revenues, of which approximately \$23,000 of those
9 revenues are actually a fixed component of our revenues
10 based on our rate structure, which is unique to utilities
11 within the State of New Hampshire. This leaves
12 approximately \$63,000 of revenues on an annual basis
13 related to working capital on a variable basis, or only
14 about 0.2 percent of our total revenues.

15 In terms of matching the receipt of
16 revenues and the payment of expenses, moreover, based on
17 our working capital, unlike gas and electrics, more than
18 70 percent of our direct operating expenses relate to
19 labor and those benefits. These are paid on a weekly
20 basis. And, as such, the current 45-day rule is a
21 reasonable and conservative calculation of rate case based
22 on that.

23 It appears that to use any -- to derive
24 any potential benefit to the customers would be small and

1 not warrant the roughly \$30,000 it would cost to hire an
2 outside expert to actually pursue a study like this. Even
3 if you were to assume that about a 50 percent reduction
4 could happen from the -- in our rates relative to that,
5 only approximately \$40,000 of annual revenues would be
6 saved in expending that money. And, that's the hard cost
7 associated with that, not necessarily the soft cost also
8 in support of doing a study like that.

9 There are a number of factors that
10 distinguish PWW, Pennichuck Water Works, from the much
11 larger gas and electric utilities using the working
12 capital costs that have prompted this proposed rule.

13 First of all, under Order in DW 11-026,
14 Pennichuck Water Works has a very unique rate structure.
15 We have a component called a "City Bond Fixed Revenue
16 Requirement", which actually comprises just about
17 27 percent of our revenues on a fixed basis. Those were
18 the fixed component of our rates that was implemented to
19 cover the payment of the acquisition debt that the City of
20 Nashua incurred in acquiring our parent corporation.

21 Second, the gas and electric utilities
22 are roughly two times to 40 times the size of Pennichuck
23 Water Works, much larger than what we are. And, again,
24 that magnifies the numbers I just quoted to you.

1 We would suggest that the proposed rule
2 be amended either to raise the gross revenue standard for
3 requiring a lead/lag study to a \$50 million threshold,
4 rather than the \$20 million as proposed, or that it only
5 apply to gas and electric utilities, based on the
6 structure of their rates versus the structure of our
7 rates, as I've indicated.

8 We intend to submit additional
9 information with our written comments next week. And, we
10 respectfully request that PWW be excluded from the
11 lead/lag study requirements as proposed. And, I'd be
12 happy to answer any questions you might have.

13 CHAIRMAN HONIGBERG: Thank you,
14 Mr. Goodhue. Mr. Epler.

15 MR. EPLER: Yes. Thank you,
16 Commissioners. While I do -- I'm appearing here on behalf
17 of both Unitil Energy Systems and Northern Utilities.
18 And, while I don't have the facts and figures that the
19 previous speaker was able to recite to you, from our
20 Company's perspective, we would kind of take the same
21 position, that the benefit is really not worth the cost of
22 doing the calculation. We agree with and are in favor of
23 doing a working capital calculation for the purchase power
24 portion and for the purchase gas portion, respectively, of

1 rates. And, we have a procedure in place that has -- that
2 has been vetted by the Staff, by the Consumer Advocate's
3 Office. And, so, we regularly update those when we make
4 those filings.

5 But, in terms of rates, we believe that
6 the calculation is a complex one, it's an expensive one to
7 perform. And, that we don't think that there would be a
8 great benefit, in terms of rate impact, by the result of
9 doing that. And, we look to the FERC, FERC applies a
10 45-day convention on the electric side. And, we think
11 that that is -- that that's a worthwhile precedent and
12 should be filed -- should be followed.

13 I think, if you take a step back and try
14 to look at kind of the ratemaking process, I would argue
15 that it's not meant to be so precise. That, if you look
16 at the history of how ratemaking has evolved in the United
17 States and in the individual states, the way we go about
18 ratemaking, by looking at an historical test year and so
19 on, is a convention to try to arrive at a reasonable rate
20 for the monopoly distribution company. And, it was never
21 meant to be very, very, very precise. And, oftentimes, in
22 trying to get to precision with particular components,
23 you're just adding a layer of complexity and a layer of
24 costs that's not necessary. And, then, you can get a

1 better sense of the company's needs and the reasonableness
2 of rates by looking at other kinds of things, rather than
3 concentrating on these costly kind of studies.

4 I'm happy to take any questions. And,
5 we will probably file written comments at the appropriate
6 time. Thank you.

7 CHAIRMAN HONIGBERG: Okay. And, I would
8 remind people that there is a work session scheduled for
9 the period right after this hearing.

10 COMMISSIONER SCOTT: That was my
11 question, if there was going to be a written --

12 CHAIRMAN HONIGBERG: Mr. Epler
13 anticipated your question.

14 COMMISSIONER SCOTT: He did.

15 CHAIRMAN HONIGBERG: Would any of the
16 others who are here like to speak? PSNH? The OCA?
17 Anybody?

18 (No verbal response)

19 CHAIRMAN HONIGBERG: Staff, do you have
20 anything you want to add?

21 MS. HOLLENBERG: No thank you.

22 CHAIRMAN HONIGBERG: All right. As I
23 said, there's a technical session following this, I think.
24 Right?

1 MS. HOLLENBERG: Actually, I didn't know
2 that there was, but --

3 CHAIRMAN HONIGBERG: Then, let's go back
4 to the Order of Notice, shall we?

5 MS. HOLLENBERG: Thank you.

6 CHAIRMAN HONIGBERG: "Following the
7 public comment hearing on March 18, 2015, Staff will hold
8 a technical session with interested parties for purposes
9 of discussing the proposed amended rule.?"

10 MS. HOLLENBERG: And, we will do so with
11 pleasure.

12 COMMISSIONER SCOTT: Surprise.

13 CHAIRMAN HONIGBERG: I didn't say it up
14 front, because I thought it was a given. And, then, --

15 MS. HOLLENBERG: Pardon my -- this is my
16 first rulemaking proceeding. So, obviously, I'll do it
17 better the next time.

18 CHAIRMAN HONIGBERG: But they're not all
19 this exciting. And, the written comment period, as I
20 said, is open until March 25th. So, unless anybody has
21 anything else, we will stand adjourned?

22 (No verbal response)

23 CHAIRMAN HONIGBERG: Thank you all.

24 **(Whereupon the hearing was adjourned at 10:16 a.m.)**